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UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SECURITY ADMINISTRATION

A HANDBOOK
FOR
COUNTY FSA COMMITTEEMEN



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INTRODUCTION

County FSA Committeemen render services of great public importance. They pass upon the need of applicants for rehabilitation loans; the eligibility of applicants for Farm Ownership loans; the suitability of farms and reasonableness of prices paid for farms by FO borrowers. In addition, they review the progress made by all FSA borrowers who have had loans for three years or more and recommend future action with respect to them. They assist in adjusting difficulties that arise in negotiations with borrowers and contribute to a better public understanding of FSA policies and activities. They are now to pass upon applications for G. I. loan guaranties and FSA loans from World War II Veterans.

This Handbook for County FSA Committeemen discusses these and other duties of Committeemen and presents the basic provisions of law and policy under which they are to be performed. It will serve as a textbook at meetings or "schools" where Committeemen and FSA employees discuss their respective responsibilities and as a guide to individual Committeemen in meeting problems that arise in their respective counties.

COUNTY FSA COMMITTEE HANDBOOK

SECTION I - COUNTY FSA COMMITTEES - ORGANIZATION AND FUNCTIONS

I GENERAL: In FSA it is the policy to enlist the aid and advice of interested citizens in carrying forward a program of assistance to low-income farm families and veterans. This assistance is obtained by selecting citizens who are familiar and are in general agreement with the objectives of FSA and who have an understanding of good farm and home practices to serve on certain Committees.

A In each state there is a State FSA Committee which serves in an advisory capacity with respect to all phases of the FSA program. This Committee is composed of nine members from different geographical areas of the state, and represent as many of the major types of agriculture as possible. At least four of these members are persons actively engaged in farming. The other members are chosen from among farm organization leaders, farm editors and others identified with or interested in agriculture. The State Director of the Agricultural Extension Service and the State Director of Vocational Education are usually included in the membership. The State FSA Advisory Committee works with the FSA State Director in advising on the over-all program for the state.

B In each county in which there is an FSA program, a County FSA Committee is appointed to advise and assist with respect to all phases of the FSA program in the county. The County FSA Committee is composed of three farmers residing on farms in the county, one or more of whom are or have been tenants operating family-type farms. In some counties, where there are less than ten borrowers in the county, a single FSA Committeeman is appointed to work with the regular County FSA Committee in an adjacent county on matters pertaining to the program in the county from which appointed.

C The information presented in this Handbook is furnished as a guide to County FSA Committeemen, regarding their responsibilities as Federal employees and as members of a group interested in carrying forward the FSA program in the county.

II EMPLOYMENT: Committeemen are selected and appointed by the FSA State Director who acts on authority of the Secretary of Agriculture. Although Committeemen do not perform full-time duties every day in connection with this appointment, they are Federal employees, and, as such, are subject to all the rules and regulations pertaining to employees of the Federal Government.

A Term of Employment.

1 Terms of office for regular Committee members are so arranged that one membership expires each year. This is accomplished by establishing terms of office of 1, 2 and 3 years, respectively, for the three regular Committeemen who compose the Committee at the time it is created. The term of office for alternate members of the Committee is one year. No regular member is eligible for reappointment or for appointment as an alternate until a year has elapsed, except a Committeeman, who serves for less than one year in filling the term of a predecessor, may be appointed immediately for a three-year term.

Section I

II A (cont.)

2 If, during the regular term of appointment, a Committeeman discontinues active farming operations or ceases to reside upon a farm, he is no longer eligible for employment as a Committeeman and should resign from the Committee.

B Political Activity.

1 Every practical means must be employed to prevent use of the influence derived from membership on an FSA Committee to gain personal or political advantage. No person will be appointed to a Committee who is holding or seeking an elective municipal, county, state or Federal office.

2 County FSA Committeemen while on official duty are also subject to all restrictions which apply to all Government employees under the Hatch Act and all other applicable Federal statutes.

C Pay. Attendance at a formal meeting of the County FSA Committee called by the FSA Supervisor entitles a Committee member to compensation for one full day regardless of the duration of the meeting. Supervisors are expected to plan meetings so they will be called only when there is enough work to justify the time and expense of such meeting. For work performed, other than attendance at formal sessions, periods of service of four hours or less on any day are compensated for at one-half day. In computing time, the time required in travel to and from home may be counted. Hours in excess of eight in any one calendar day may not be credited to any succeeding day. No regular Committeeman will receive compensation for more than five days in any month for FO services, except that the amount allowed per day in lieu of travel and subsistence expenses may be paid for the extra days. Claim for remuneration in connection with FO services for duties over and above five days in any one month should be made monthly. The FSA Supervisor will provide the proper forms and will explain the proper manner of preparing vouchers for this purpose.

D Business Transactions with the Government. Committeemen may not enter into contracts or engage in other similar business transactions with the Government, unless specific authorization is obtained from the Regional Director. Nor should any Committeeman participate in any FSA Committee action involving the interest of a close relative or business associate. A Committeeman may not accept credit from any FSA financed cooperative association. A Committeeman who wishes to apply for a loan with FSA must resign before applying for such loan.

E Business Transactions with Borrowers. No business transactions will be engaged in between FSA Committeemen and FSA borrowers if the circumstances related thereto are such that the Committeeman enjoys any advantage whatsoever over competitors by virtue of his being a Committeeman or the borrower thereby becomes obligated to the Committeeman in any inappropriate manner whatsoever. Transactions between Committeemen and FSA borrowers which, because of their character or frequency, might be brought into question, should be discussed by the Committeeman with the Supervisor and his approval secured before proceeding.

III DUTIES AND RESPONSIBILITIES OF THE COUNTY FSA COMMITTEE: The following functions apply to both the regular members and the alternate members, if any, except in matters pertaining to the FO program. In discharging their responsibility of advising on the over-all FSA program, alternate Committeemen may advise informally with respect to the FO program. They may not legally execute certifications with respect to applicants or farms or perform other official duties in connection with the FO program; nor can they legally be paid from FO funds for any services rendered in connection with the FO program. Committee functions which are identified as advisory do not vest in Committeemen any administrative authority; nor do they relieve appropriate FSA personnel of responsibility for making final administrative determinations.

A General.

- 1 Within the clearly defined policies and objectives of the FSA, to cooperate with local groups, Committees and civic organizations in planning and developing coordinated action on community problems which affect low-income farm families.
- 2 To confer with local FSA personnel in developing an effective program adequately providing for the various phases of rural rehabilitation, including farm operation, home economy, health and general living conditions.
- 3 To assist in informing lending institutions, supply and equipment dealers, businessmen, and other local groups of the objectives, methods and policies of FSA.
- 4 To work with low-income farm families, explaining objectives, methods and policies of FSA.

B FO Program.

- 1 To examine applications, appraise farms, and certify to the eligibility of applicants and the reasonable value of farms in connection with making FO loans. (Final responsibility, however, for the approval or disapproval of a loan rests with the Secretary of Agriculture or his delegated representative.)
- 2 To recommend the amounts FO borrowers should pay under the variable payment plan in the event of lack of agreement between the FSA Supervisor and the borrower.
- 3 To advise with respect to handling FO problem cases.
- 4 To advise with respect to Farm and Home Plans for FO borrowers.
- 5 To review the progress of specified borrowers and to make determinations and recommendations in accordance with paragraph IV below.

C RR Program.

- 1 To determine the eligibility of applicants for new RR loans. (The

Section I

III C 1 (cont.)

Committee will also determine the eligibility of "paid-up" borrowers who apply for supplemental RR loans.)

2 To advise from time to time with respect to handling active standard RR and other problem cases.

3 To make a careful study of the tenure situation of FSA borrowers and approved applicants to determine whether rents and purchase or mortgage contracts are equitable, and to assist in working out equitable arrangements with landlords, sellers, and mortgage holders.

4 To review (once each year) the progress of specified borrowers and to make determinations and recommendations in accordance with paragraph IV below.

5 To consider applications from needy farm families and creditors of such farm families for voluntary debt adjustment and to aid in effecting equitable adjustments.

6 To review applications from FSA borrowers for the compromise or settlement of their indebtedness to the Government under the provisions of Public Law 518, as outlined in Section III of this Handbook, and to certify to the Regional Director as to their knowledge of the circumstances of such borrowers.

D Other Special Duties. In addition to the general functions and duties outlined above in connection with the FSA program, regular members of the County FSA Committee also have been designated as members of the "Veterans' Agricultural Loan Committee," in their respective counties, to perform the duties as outlined under Section IV of this Handbook. This special assignment has no direct connection with the Farm Security Administration program.

IV ANNUAL REVIEW OF CASES:

A Purpose and Scope of Review. The annual review is for the purpose of appraising the progress made by FSA borrowers up to the date of review and the potentialities for further progress under the FSA program. This review will culminate in specific determination accompanied by appropriate recommendations in each case. Prior to actually reviewing the progress of borrowers, Committee members, with the assistance of District FSA and FSA Supervisors, should familiarize themselves with those FSA policies and objectives which are pertinent to the determinations and recommendations that will be expected of them.

1 CASES TO BE REVIEWED. County FSA Committees will review annually:

a Active FSA borrowers (standard and nonstandard RR borrowers and FO borrowers, including project occupants) who have been on the FSA program three full crop years or longer.

b Active FSA borrowers, irrespective of the length of time they have been on the FSA program, who, the FSA Supervisor believes, will fall into any one of

IV A 1 b (cont.)

the following categories:

- (1) Those who have made sufficient progress to enable them to obtain satisfactory future credit needs from other sources.
- (2) Those who have failed to make satisfactory progress toward rehabilitation and debt retirement.
- (3) Those who have failed to carry out their Farm and Home Plans.
- (4) Those who have been classified as FO problem cases for special servicing.

B Preparation for Review. The County Office staff will prepare, prior to the review meetings, a Committee worksheet for each case to be reviewed, except for FO borrowers. Form FSA-528, "Annual Income Return," will be used as the basis for reviewing all FO cases, including project and Defense Relocation Corporation cases on which Form FSA-528 has been prepared. For all other FSA borrowers, worksheets will be prepared for the use of the Committee, showing information concerning the borrower and his family, his location, his relationship to the land, identification or description of the farm unit, the status of the account and evidence of progress in financial affairs, and some information regarding the major problems, if any, which have been experienced by or with the family. Additional information, when necessary for a full and complete understanding of the case, will be provided from office records during the process of review.

C Committee Determinations. The County FSA Committee will make a determination and, where appropriate, advisory recommendations for the future handling of each case reviewed. The Committee determination will be based primarily on the borrower's performance record since coming on the FSA program. Appropriate consideration will be given to FSA standards and objectives for farm families, the borrower's resources, capability, industry and state of health, his willingness and ability to profit by supervision, the extent of his probable and expected need for supervision and credit, his possibilities for successful farm and home operations, repayments he has made on FSA loans and on indebtedness to other creditors, and other pertinent facts and factors. In addition to the information on the Committee worksheet, the Committeemen will draw on their own knowledge resulting from contacts with the family or visits to the farm, observations contributed by the county staff, and, where appropriate, information from other objective sources. The following policy statements are made particularly for the guidance of Committees in making their determinations and recommendations:

1 When reviewing the case of an FO borrower (include project occupants) who is purchasing land, it should be kept in mind that it is not considered safe from the standpoint of the Government's security, or to the best interests of the borrower, that he secure operating capital elsewhere until he has made a sure, safe start along the road toward farm ownership. Ordinarily, he cannot be presumed to have made such a start until he has established a substantial equity in his farm, is up to or ahead of schedule, and is successfully carrying out his Farm and Home Plan and keeping expenditures reasonably within approved budgets.

Section I

IV C (cont.)

2 Before recommending that any borrower, who has made satisfactory progress, be encouraged to secure outside credit, the Committee should feel reasonably sure that satisfactory credit, from the standpoint of terms, interest rate, and adequacy, is available, and that such credit will meet the needs indicated by the borrower's plans for operations.

3 Committees generally should reach one of the following determinations (it may be advisable also to make alternative recommendations):

a Continue to furnish the borrower with the necessary supervision and supplementary financing (this may involve a recommendation calling for a change in the borrower's farm operations on the same farm or on another farm).

b Consider the borrower for an FO loan under Title I of the Bankhead-Jones Farm Tenant Act. If FO loan funds are not currently available, borrowers should, nevertheless, be listed as eligible for consideration in the event such funds become available at a later date. If the borrower is a project occupant operating under a lease, the Committee may recommend that he be considered as a potential purchaser of a project farm. (Either one of the above recommendations will ordinarily involve a supplemental determination by the Committee in regard to the financing of the borrower's farm operations.)

c Advise those borrowers whose only future need is credit (not FSA supervision) to apply to other credit sources for future financing. (Appropriate recommendations should be made for handling the case if satisfactory evidence is subsequently submitted that other credit is not available to the individual.) When an FO borrower (including purchaser of full-time project or Defense Relocation Corporation property) meets the conditions set forth in paragraph IV C 1 above and is advised to obtain his operating capital from other sources, it should be understood that he will continue to receive such supervision as may be required until his FO loan is paid in full.

d Discontinue further FSA supervision and financing for those borrowers for whom rehabilitation seems improbable. (The accounts of borrowers for whom this determination is made will necessarily continue to be serviced for collection purposes in accordance with regular FSA procedures and policies.)

e For classified FO problem cases, recommend:

(1) That the case be dropped from the problem list due to progress made during the year.

(2) Continued servicing as a problem case.

(3) Liquidation.

D Appeals from Committee Determinations. In cases where the borrower or the FSA Supervisor desires to appeal a determination of the County FSA Committee, or where such determination subsequently appears impracticable of accomplishment, the case should be

IV D (cont.)

reviewed again at the next regular Committee meeting in the hope that a solution of benefit both to the borrower and to the Government can be reached. If the final decision is unacceptable, the borrower has the right of further appeal to the Regional Director. In all such cases, a permanent record will be made of all proceedings and final determinations, and recommendations will be signed by the County FSA Committee-men participating.

V ORGANIZATION AND RECORDING ACTIONS:

A At their first meeting after July 1 of each year the members of the Committee will elect a chairman for the ensuing year.

B The FSA Supervisor will serve, without extra compensation, as Executive Secretary of the County FSA Committee, preparing such minutes and maintaining such files and records as may be required. The Committee members present and participating in a meeting will sign the minutes of that meeting. While it is assumed that Committees will proceed informally with preliminary investigations and discussions, the Committee will vote formally at its meetings with respect to the approval of FO applicants and farms. In connection with the performance of FO duties, two regular members of the Committee will constitute a quorum, and a majority (two votes) will be required. In connection with duties other than FO, the alternate, if any, may be one of the two members who will constitute the quorum. Generally the eligibility of RR applicants will be considered by the Committees at formal meetings; however, this practice may be deviated from if it is impracticable from the standpoint of time limitations, the limited number of applications to be reviewed, or other comparable reasons. The action on the eligibility of applicants for new RR loans, and the applications from paid-up borrowers for supplemental loans, should be indicated, and at least two members of the Committee should sign Form FSA-197, "Application." Committee action resulting from the annual review of cases will be indicated on the Committee worksheet by the signature of at least two Committee members.

C It is not necessary to record in Committee minutes, either the Committee actions on RR applications or the Committee actions resulting from the annual review of cases, since these actions are certified on an individual case basis by the Committee.

SECTION II - COMMITTEE RESPONSIBILITIES IN CONNECTION WITH FO LOANS

INTRODUCTION

The Bankhead-Jones Farm Tenant Act clearly defines committee duties with respect to TP loans. They are to determine which applicants are to be certified for loans and which farms are to be certified for purchase. The instructions which follow in this Handbook for County FSA Committeemen outline the legal provisions to be observed and the administrative policies to be complied with in performing these functions. Every Committeeman should be familiar with the instructions and with the purposes which lie back of them. Difficulties in carrying out policies are not likely to arise when the reasons for the policies are understood by everyone concerned.

As a matter of fact the instructions in this Handbook are based not only upon the law but also upon what has been learned by Committee members and FSA employees since the passage of the law in July, 1937.

Some mistakes of judgment with respect to family selection and farm selection have come to light. Of course, we cannot correct them if we do not know what they are. Certainly, we would be remiss in our duties if we should continue to make mistakes over and over again after we have learned that they are mistakes.

Schools for Committeemen are held so that everyone may benefit by what we have already learned and so that we can pool our judgment in coping with new problems that confront us.

The war has affected the FO program in three significant respects:

- 1 It has caused the prices of farms to rise and has brought us face to face with the problem of deciding when prices are out of line with earning-capacity values. No one should venture to render decisions on this vital point without first equipping himself with all possible information about land booms and their disastrous consequences.
- 2 War prices for land and war wages available in industries are causing an increasing number of FO borrowers to sell their farms for profit or to neglect their farms in order to accept off-farm employment. There are no regulations against justifiable participation in war enterprises, but there is some tendency on the part of a few individuals to use the war situation as an excuse for unwarranted actions detrimental to the FO program. How can we comply with the provisions of the law with respect to inflation control and avoid objectionable restrictions upon the freedom of borrowers? This perplexing question requires thoroughgoing discussion.
- 3 War conditions make it necessary to defer construction and repair of buildings on TP farms. If these repairs and improvements are not completed after the war, one of the primary purposes for which the Bankhead-Jones Farm Tenant Act was passed, namely, improving the living standards of farm laborers, farm tenants and sharecroppers, will have been lost. How can we avoid such an outcome?

Section II

We need Committee assistance in coping with other problems more or less directly related to the war. There are a number of reasons why borrowers should pay ahead of schedule on their FO debts while they are able to do so. This subject, related to the wise administration of the variable payment plan, ought to be discussed at Committee schools.

A few FO borrowers are getting behind schedule on their FO payments and, in addition, are building up excessive operating debts. They will ruin themselves financially and discredit the program if this trend is not controlled. Now that Committeemen are to review the progress of the borrowers whose rehabilitation loans have been outstanding three or more years, they will be called upon to deal with cases of this kind. Discriminating judgment will be called for, and the basis for exercising such judgment should be developed out of discussions at Committee schools.

The supreme test of our judgment and ability may arise in passing upon applications for FO loans from World War II veterans. It appears doubtful that there will be enough economic family-type farms available at earning-capacity prices to meet the demand for such farms for veterans. How can we serve the best interests of veterans and not incur their ill-will in so doing?

The FO instructions are arranged in this Handbook in logical order. It is not assumed that they will be read from beginning to end at Committeeschools, but each and every instruction should be discussed so that there may be that degree of common objectives and common understanding that is indispensable if the FO program is to be carried out successfully on a nation-wide scale.

I PURPOSES OF FARM OWNERSHIP LOANS:

- A To promote more secure occupancy of farms and farm homes by families who derive the major portion of their income from farming operations.
- B To correct the economic instability resulting from some present forms of farm tenancy.
- C To preserve the family-type farm in America.
- D To correct maladjustments of population to the land which result in wasted manpower, impoverishment of land and people, and decline of rural civilization.

II KINDS OF FO LOANS:

- A Tenant Purchase or "TP" Loans. TP loans are those made from funds authorized by the Congress under the Bankhead-Jones Act to eligible persons, who do not own farm land, for purchasing and improving family-type farms.
- B Farm Enlargement or "FE" Loans. FE loans are those made under the Bankhead-Jones Farm Tenant Act to enlarge inadequate units and develop them into family-type farms.
- C Project Liquidation or "PL" Loans. PL loans are those made through sale by the United States of certain lands to borrowers eligible under the Bankhead-Jones Farm Tenant Act under terms identical to TP loans. Such lands were originally purchased by the United States for resettlement purposes.
- *D Farm Development or "FD" Loans. FD loans are those made from funds appropriated by the Congress for loans, grants and rural rehabilitation for development and improvement of underimproved farms to make them economic family-type farms.

III ALL FO LOANS SIMILAR TO TP: Rules for eligibility of families, standards of farm selection, loan terms, repayment plans and loan supervision and servicing are all identical as far as possible with the regulations in the Bankhead-Jones Farm Tenant Act and apply to all the FO loans described above - TP, FE, FD and PL.

A The Bankhead-Jones Farm Tenant Act authorized a County FSA Committee to certify the families who will get loans under the Act and the farms they will buy. The County FSA Committee performs these same duties for all types of FO loans.

IV BASIC AUTHORIZATIONS:

A The Bankhead-Jones Farm Tenant Act. In order to make the FO program fully understandable, the following provisions of Title I and Title IV of the Bankhead-Jones Farm Tenant Act are quoted verbatim:

Section II

IV A (cont.)

"TITLE I - FARM TENANT PROVISIONS

"Power of Secretary

"Section 1. (a) The Secretary of Agriculture (hereinafter referred to as the 'Secretary') is authorized to make loans in the United States and in the Territories of Alaska and Hawaii and in Puerto Rico to persons eligible to receive the benefits of this title to enable such persons to acquire farms."

B Administration of the Act. The following paragraphs are quoted from Secretary's Memorandum No. 738, dated September 30, 1937:

"Pursuant to the powers vested in me by the Bankhead-Jones Farm Tenant Act, it is hereby ordered as follows:

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The administration of Title I of the Bankhead-Jones Farm Tenant Act and related provisions of Title IV of that Act, is hereby entrusted to the Administrator of the Farm Security Administration, subject to the supervision of the Secretary."

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(Title I) "Equitable Distribution of Loans

"Sec. 4. In making loans under this title, the amount which is devoted to such purpose during any fiscal year shall be distributed equitably among the several States and Territories on the basis of farm population and the prevalence of tenancy, as determined by the Secretary."

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(The 1946 Appropriation Act for the Department of Agriculture changed the above distribution of appropriated funds in order to favor free choice of farm location by veterans. Of the \$50,000,000 total appropriated for 1946 loans under the Bankhead-Jones Act, one-half or \$25,000,000 is especially earmarked for loans to eligible veterans and is to be distributed among the states according to the needs and demands of the veterans.)

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IV B (cont.)

"TITLE IV - GENERAL PROVISIONS

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"Fees and Commissions Prohibited

"Sec. 53. No Federal officer, attorney, or employee shall, directly or indirectly, be the beneficiary of or receive any fee, commission, gift or other consideration for or in connection with any transaction or business under this Act other than such salary, fee, or other compensation as he may receive as such officer, attorney, or employee. No member of a county committee shall knowingly make or join in making any certification prohibited by section 2 (c). Any person violating any provision of this section shall, upon conviction thereof, be punished by a fine of not more than \$1,000 or imprisonment for not more than one year, or both."

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(Title I) "Sec. 2 (c). No certification under this section shall be made with respect to any form in which any member of the committee or any person related to such member within the third degree of consanguinity or affinity has any property interest, direct or indirect, or in which they or either of them have had such interest within one year prior to the date of certification."

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V CRITERIA FOR SELECTION OF APPLICANTS: The following requirements will govern the selection of applicants for FO loans:

A The Bankhead-Jones Act makes certain pronouncements with respect to applicants which it is well to consider along with the regulations developed by the Farm Security Administration.

"Sec. 1 (b). Only farm tenants, farm laborers, sharecroppers and other individuals who obtain, or who recently obtained, the major portion of their income from farming operations shall be eligible to receive the benefits of this title. In making available the benefits of this title, the Secretary shall give preference to persons who are married, or who have dependent families, or, wherever practicable, to persons who are able to make an initial down payment, or who are owners of livestock and farm implements necessary successfully to carry on farming operations. No person shall be eligible who is not a citizen of the United States.

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"Sec. 2 (b). If the committee finds that an applicant is eligible to receive the benefits of this title, that by reason of his character, ability and experience he is likely successfully to carry out undertakings

Section II

V A (cont.)

required of him under a loan which may be made under this title, and that the farm with respect to which the application is made is of such character that there is a reasonable likelihood that the making of a loan with respect thereto will carry out the purposes of this title, it shall so certify to the Secretary. The committee shall also certify to the Secretary the amount which the committee finds is the reasonable value of the farm."

B. FSA Regulations. An applicant must:

- 1 Be a citizen of the United States in order to obtain a TP or FE loan.
- 2 Be or have been recently engaged in farming as a means of providing the major portion of the family income.
- 3 Be a farm tenant, farm laborer, sharecropper or recent owner in order to obtain a TP loan, and be either an owner or contract purchaser in order to obtain an FE loan.
- 4 Be willing to cooperate with representatives of the FSA in developing and carrying out a sound Farm and Home Plan and maintaining such records and accounts as may be required until the debt is paid.
- 5 Have shown a proper attitude toward meeting his debt obligations.
- 6 Have manifested a desire for stability of residence.
- 7 Be adapted to and interested in operating a family-type farm.
- 8 Possess the necessary initiative, resourcefulness, and farming and managerial ability to succeed with operation of a family-type farm.
- 9 Be unable to obtain from private or other Government sources a satisfactory loan for the purchase, enlargement or development of a family-type farm.
- 10 Be free from incurable physical disabilities likely to interfere with successful farm and home management operations and with the repayment of the loan. In addition, no member of the applicant's family should be disabled or afflicted in a manner likely to prevent the repayment of the loan.

C Preference will be given to applicants who are married, or who have dependent families. Other things being equal, families with children who will remain in the home for some years to come should be given preference.

D Preference will be given to applicants who are able to make an initial down payment, or who are owners of livestock and farm implements necessary to carry on successful farming operations.

E In the selection of applicants, there will be no discrimination based on nationality, race, creed or political affiliation.

V (cont.)

F Unless an exception is made in writing by the Regional Director, a loan should not be recommended if there is a person in the family related to a member of the County FSA Committee or to the FSA Supervisor or Assistant Supervisors in any of the following direct or step relationships: Father, mother, son, daughter, brother, sister, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law.

G A loan may be made to an otherwise eligible applicant who has served on a County FSA Committee or to a person related to a former Committeeman, as specified in paragraph E above, provided that at least one year has elapsed since the Committeeman's resignation or retirement.

H Persons having outstanding judgments against them will be eligible for an FO loan only after such judgments have been settled or satisfactory arrangements have been made for settling them. Otherwise, such judgments may become liens against any farm purchased, enlarged or developed by means of an FO loan.

I FO loans will not be made to applicants whose nonreal estate debts, after adjustment, are excessive. In other words, the total indebtedness of such borrowers should come within the limits of possible repayment from the anticipated farm income.

J The ownership by an applicant or his wife of land, or an interest therein which is of negligible agricultural value, which cannot be developed into a family-type farm and which is not to become part of an enlargement unit, will not disqualify an applicant for an FO loan, provided he agrees to dispose of such land or interest as soon as possible and apply the proceeds as an extra payment on the loan.

K Except as provided in paragraph I above, a TP loan will not be made to an applicant if either he or his wife owns land or an interest in land.

L In connection with FE loans (but not TP loans), the proceeds of the loan may be used for refinancing purposes to the following extent: The total amount to be expended for refinancing must be less than one-half of the total loan and, in addition, must not exceed the County Committee's determination of value less planned improvements of the unit owned by the applicant. However, loan proceeds may not be used to refinance any debts owed to Federal agencies, or agencies under the direct supervision of the Federal Government, which have for their purpose the lending of money on real estate, unless there are exceptional individual cases in which the Regional Director determines that such refinancing is justified by special or unusual circumstances.

M No TP or FE loan will be made for the purchase of land which is owned by a parent or other near relative of an applicant unless the Regional Director has determined that the applicant is not likely to acquire the property in a short time by inheritance, and that the vendor's circumstances are such as to make it impracticable for him to sell the property to the applicant under any arrangement that would make a TP or FE loan unnecessary. Likewise, no refinancing of a mortgage held by a parent or other near relative will be permitted in connection with FE loans unless the Regional Director has determined that the applicant is not likely in a short

Section II

V M (cont.)

time to receive an inheritance from the relative's estate sufficient to discharge the mortgage, and that the mortgagee's circumstances are such as to make it impracticable to refinance the mortgage under any arrangement that would make an FO loan unnecessary. Regional Directors will approve personally all cases of this character with full consideration being given to the fact that it is the general policy of the FSA to make loans only to eligible persons who cannot obtain them from other sources under reasonable terms.

N An applicant for an FE loan must have personally operated the tract of land which he wishes to enlarge or develop not less than twelve months prior to the date of his application, and, in general, preference will be given to applicants who have resided on such land more than twelve months.

O An FE loan may be made to an applicant with an equity in an undivided estate to enable him to purchase the interests of the other heirs, and the proceeds of the loan may be used to satisfy the borrower's share of any liens or encumbrances outstanding against the estate (subject to the limitations in paragraph K above). However, no part of the loan will be used for the payment of any equity held by the borrower which is free from encumbrance.

P The farm or tract of land which an applicant desires to enlarge with the proceeds of an FE loan must be definitely less than a family-type farm, even though adequately improved and properly farmed. Borderline cases should be avoided. On the other hand, the applicant should be primarily a farmer. The aim is to enlarge farms on which actual farmers have been unable to make a satisfactory living. It is not to convert suburban homes or well-established part-time farms into family-type farms.

Q While TP and FE applicants will not be restricted to RR clients, it is to be expected that many qualified applicants will be found in the ranks of RR borrowers who have demonstrated their willingness to cooperate and their ability to succeed. County FSA Committeemen and FSA Supervisors should give careful consideration to such cases.

VI ELIGIBILITY OF VETERANS: Section 505 (b) of Public Law 346, commonly known as the "G. I. Bill of Rights," passed June 22, 1944, reads as follows:

"(b) Any person who is found by the Administrator of Veterans' Affairs to be a veteran eligible for the benefits of this title, as provided in section 500 hereof, and who is found by the Secretary of Agriculture, by reason of his ability and experience, including training as a vocational trainee, to be likely to carry out successfully undertakings required of him under a loan which may be made under the Bankhead-Jones Farm Tenant Act, shall be eligible for the benefits of such Act to the same extent as if he were a farm tenant."

(There should always be a clear distinction between the services of the Committee having to do with loans to veterans under the Bankhead-Jones Farm Tenant Act and their services having to do with guaranties on loans from other lenders, as explained in Section IV of this Handbook.)

VI (cont.)

A This section of Public Law 346 provides for the eligibility of veterans; it does not remove the necessity for determining that the veteran is likely to be successful with the loan he is seeking. The criteria for selection of applicants given in paragraph V above apply to the selection of veterans for Bankhead-Jones Farm Tenant loans except as modified by the following paragraphs:

1 In general, FSA Farm Purchase loans are limited to applicants who are unable to obtain satisfactory credit from sources other than FSA. This will hold true also for veterans, except in cases where a veteran is not likely to succeed in farming without supervision of the type provided by FSA. In such case, he will not be denied an FSA loan, even though he might be able to obtain an unsupervised loan from another source.

2 In addition to any instruction he may have received in training centers, schools, colleges, short courses, correspondence or self-study courses, a veteran who has had little or no actual farming experience should (except in very special or unusual cases) acquire actual experience on a farm in the various seasonal operations related to the kind of farming in which he expects to engage. The amount of actual experience required should bear an appropriate relationship to the magnitude of the investment, the character of the operation, the ability of the applicant and the amount of practical guidance that may be available to him after he starts farming. Placement training on a farm carried on under the auspices of an educational institution approved by the Veterans' Administration will be accepted as actual experience on a farm.

VII SELECTING APPLICANTS:A Veterans.

1 Veterans who apply for FO loans will be given all possible assistance in locating in the county of their choice even though no FO loans have been made previously in the county. In order to carry out this policy, all County FSA Committees should be trained in Farm Ownership procedure.

a If a veteran applies for a loan in a county other than the one in which he desires to locate, the FSA office which receives his application and the Committee will give the veteran pertinent information about the program, including matters of law, but should make no judgment determinations which are properly the responsibility of the Committee in the county in which he desires to locate. Unless the veteran is obviously ineligible, his application should be transmitted to the FSA Supervisor, having jurisdiction over the county in which the veteran wishes to locate, in order that it may be considered by the Committee in that county. If there is no Committee in that county, one should be appointed.

b If a veteran applies in a county in which there is no Committee, his application will be reviewed by the FSA Supervisor, but the Supervisor will not make any judgment determinations that properly are the functions of a Committee. If the veteran is clearly ineligible because of certain

Section II

VII A 1 b (cont.)

legal matters, he should be so advised, and there need be no further action in the matter. However, if the application is one which should be reviewed by a Committee and the veteran wishes to locate in that county, a Committee will be set up in the county in order to give the application proper consideration. If the veteran wishes to locate in another county, his application will be handled in accordance with paragraph VII A 1 above.

B Steps in Selecting Applicants.

1 The process of sifting applicants on the basis of relative qualifications will be continuous. The County FSA Committee will review all applications and choose the applicants whom they wish to investigate further.

2 The County FSA Committee will consider Form FSA-197, "Application"; a list of the borrower's assets, liabilities, and net worth; and a statement prepared by the FSA Supervisor regarding the qualifications of the family from the standpoint of farm and home management. On the basis of this information and any other available facts, the Committee will either tentatively select the applicant or decide that no further action should be taken at this time.

3 Final approval of tentatively selected applicants by the Committee should be withheld until the applicant and his wife appear before the full Committee and the FSA Supervisor for instruction as to the conditions, obligations and responsibilities of the loan they are seeking. Best results can be realized when a group of tentatively selected applicants meets with the Committee and Supervisor. However, group instruction may often be impossible because of the limited number of applicants at any one time or for other reasons. In such cases, even greater care should be taken to see that the individual applicant and his wife understand fully all the obligations and responsibilities being assumed. The requirements relative to family-type farms, the kind of improvements expected and all other pertinent matters concerning the FO program should be discussed. Form FSA-317, "Agreement", which sets forth the obligations which the borrower and his wife assume when they accept an FO loan, will be read and discussed, and a copy of it given to each applicant so that he and his wife will have time to study and grasp its contents. If it develops in the course of discussion that the applicant is not in accord with the requirements and responsibilities of a supervised FO loan, the remedy is not to force him to accept the terms against his will. On the contrary, the remedy is to refrain from making him a loan. When it appears, however, that the family fully understands and is in complete accord with the terms of the informal "Agreement" and with the FO requirements, and they are still favored by the Committee, they should be advised confidentially that their application is being VIEWED WITH FAVOR. If they are applicants for a TP or FE loan, they should also be informed that they may proceed, if they have not already done so, to select the farm they desire to purchase.

VII (cont.)

C Health Examination.

1 Since health examinations of families receiving FO loans are no longer mandatory, the Committee has a greater responsibility than heretofore to make a determination as to the physical ability of a family to engage in successful farm and home management operations.

2 In case of doubt as to whether to certify a family as eligible from this standpoint for an FO loan, a health examination of the family may be required. It is only the incurable physical disabilities, likely to interfere with successful farm and home management operations and with the repayment of the loan, that render a family ineligible. The families themselves will benefit by the examinations by discovering conditions requiring corrective or preventive treatment.

3 In the case of FO loans to World War II veterans, the Committee will make a determination as to the physical ability of the veteran to engage in successful farming. In any doubtful case, a medical examination should be required.

VIII CRITERIA FOR SELECTION OF FARMS: Consistent with the provisions of the Bankhead-Jones Farm Tenant Act and the policies outlined herein, each applicant will be given wide latitude in the selection of the farm, or tract of land for enlarging his farm, which he desires to buy.

A General.

1 Certain general requirements for farms are given in Title I of the Bankhead-Jones Farm Tenant Act:

"Section 1 (c) No loan shall be made for the acquisition of any farm unless it is of such size as the Secretary determines to be sufficient to constitute an efficient farm-management unit and to enable a diligent farm family to carry on successful farming of a type which the Secretary deems can be successfully carried on in the locality in which the farm is situated.

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"Section 2 (b) If the committee finds that an applicant is eligible to receive the benefits of this title, that by reason of his character, ability, and experience he is likely successfully to carry out undertakings required of him under a loan which may be made under this title, and that the farm with respect to which the application is made is of such character that there is a reasonable likelihood that the making of a loan with respect thereto will carry out the purposes of this title, it shall so certify to the Secretary. The committee shall also certify to the Secretary the amount which the committee finds is the reasonable value of the farm."

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Section II

VIII (cont.)

B Farm Land.

1 Loans will be made only for the purchase or development of family-type farms, or for the enlargement and development of uneconomic units into family-type farms. Such farms should not be larger than an average farm family can operate successfully without employing outside labor, except during brief peak-load periods at planting or harvesting time. In individual cases, allowances may be made with respect to employing outside labor while children are too young to be of much assistance or after they have grown up and left home. A farm on which a tenant family will be expected to reside and supplement the labor of the owner and his family, or on which an average family would require hired help a considerable part of the time, is not a family-type farm and will not be approved.

2 A rule which should be applied unalterably with respect to family-type farms which are purchased, or enlarged and developed, with the proceeds of TP or FE loans, is that they should, when developed, have capacity to yield incomes which will maintain borrowers according to acceptable living standards, pay annual operating expenses, pay for and maintain necessary livestock and farm and home equipment, and pay off TP and FE loans, and that they will be available at prices consistent with their earning capacity. Nonfarm income will not be considered in determining whether the farm as finally developed will be a family-type farm.

3 FO loans will not be made in areas designated for retirement from agriculture by Federal, state or county land use planning agencies, or in areas so poor that they are likely to be so designated when land use studies are made. Outside of such areas, in order to assist persons in greatest need of FO loans, it will be necessary to make such loans in areas including poor as well as good land. When loans are made for the purchase of poor land, unusual care must be exercised to see that it is purchased at a price in line with its earning capacity and that the farms purchased or enlarged constitute economic farm management units. Land that is worn out, eroded, foul and weedy, cannot be restored to productivity quickly or without great effort and expense. This fact should be taken into account in determining the present value of the land.

4 In selecting farms for purchase, enlargement or development, Committees should give due consideration to roads, schools, markets, and other community facilities. They should also consider the tax rate on farms and the bonded indebtedness incident to irrigation, drainage, or other types of improvements.

5 When a farm is not on a public road, it is essential that there be a satisfactory legal right-of-way to the farm.

6 Insofar as practicable, loans will be made for the purchase of lands now in cultivation. However, this policy will not preclude the purchase of a tract of raw land for the purpose of farm enlargement if the unit to be enlarged is already largely in cultivation.

7 When satisfactory individual farms cannot be secured in any county in which TP loans are to be made, consideration will be given to the subdivision of large tracts.

VIII B (cont.)

8 Preferably farms should consist of contiguous tracts of land. They may consist of noncontiguous tracts, but, if so, they must be so situated with respect to each other that the combined unit can be conveniently and efficiently operated as a family-type farm. It is especially important that this be carefully considered in the making of FE loans since the question of operating noncontiguous tracts is more likely to arise in connection with this type of loan.

C Mineral Rights.

1 It is the general policy of the FSA that a borrower will hold all of the mineral rights in land purchased, improved, or refinanced with the proceeds of FO loans. In some instances, however, vendors may refuse to transfer mineral rights, or such rights may be wholly or partially vested in third parties. In such situations, regional officials are to be guided by the principle that, with respect to the minerals, the borrower should make as good a bargain as is possible under the circumstances. The Regional Director, after satisfying himself that all practical efforts to obtain 100 per cent of the mineral rights have been made, may approve the loan if (a) the borrower has, or is able to obtain, a portion of the mineral rights or guaranties of compensation, either of which is deemed adequate protection against loss in the event the minerals are developed, or (b) the Regional Director determines that there is little likelihood that the mineral rights will be developed. (This determination may be made on a county-wide basis or for a group of counties, provided the situation with respect to minerals is similar or widespread in the county or group of counties.)

2 If the borrower does not have or cannot obtain either a sufficient portion of the mineral rights or adequate guaranties of compensation, and the Regional Director cannot determine that there is little likelihood of development of the minerals, the loan may be approved only if the Regional Director finds (a) that the situation with respect to the minerals will not jeopardize the security interest of the Government, and (b), in the case of a TP loan, that it is not practicable for the borrower to select another farm.

3 In any case where the FO farm is subject to mineral reservations, approval of the loan will be dependent upon a finding by the Regional Director that the reservation in question does not render the farm less than an economic farm management unit. Reservations authorized on behalf of a vendor should embrace the smallest fraction of the mineral rights and run for the shortest time to which the vendor will agree.

D Minimum Standards for Land Development.

1 GENERAL. In order to carry out the requirements of the Bankhead-Jones Farm Tenant Act so the Government's security will be protected adequately and waste and exhaustion of farms will be prevented and in order to safeguard the earning-capacity value of farms, sound policies of land development and conservation of soil resources will be recognized as essential and will be practiced on all FO farms. Funds needed to carry out this policy will be included in loans to FO borrowers as far as practicable. Care should be taken, however, not to include in FO loans funds

VIII D 1 (cont.)

for those standard practices of soil conservation and soil improvement which properly belong to the year-to-year operation of the farm, requiring annual expenditures which should be financed by the borrower with his personal funds or with the proceeds of other types of loans. Since minimum standards for land development are not subject to rigid definition, good judgment is required in interpreting and applying such standards to local conditions and individual circumstances. Such minimum standards for land development will be recognized as basic requirements in making FO loans to insure the effective operation of farms.

2 MINIMUM STANDARDS DEFINED.

a Prevention of Erosion. Measures to prevent erosion will be taken in all cases where there is danger of wearing away of soil or loss of fertility from wind or water erosion. Land subject to damage by water erosion will be terraced or contoured, provided with grass waterways and diversion ditches, or otherwise improved as needed in accordance with approved conservation practices. Rolling cropland which does not lend itself to terracing or contouring and on which erosion is occurring, should be returned to meadow, pasture or forest. Soil-binding crops, including trees, will be planted where most effective in controlling erosion.

b Basic Soil Treatment. In cases where the need for basic soil treatment is definitely established, such treatments as the application of lime, phosphate and potash will be made under conditions where profitable response has been demonstrated in practice. Proper distinction will be made between basic soil treatments as a part of a permanent soil-building program and annual applications of fertilizers for seasonal crop production. Provision will be made for conservation and proper use of farm manures and green manure crops.

c Permanent Pastures. Permanent pastures will be established where needed as a part of the farm economy. They will be improved by seeding, fertilizing, fencing for rotation or deferred grazing, removing brush, weeds, and so forth, when essential to the effective operations of the farm.

d Permanent Forage or Hay Crops. Permanent forage or hay crops adapted to the area, such as kudzu and lespedeza sericea, crested wheat grass, alfalfa and clover, will be provided on farms where such crops are essential to soil rehabilitation and conservation and where they will occupy particular areas of the farm for relatively long periods of time. Funds for such crops will be included to the extent practicable in the initial loan. This does not apply to crops which are seeded annually or which are a part of the normal crop rotation of the farm.

e Drainage. In cases where drainage is necessary for economic and effective use of land, such drainage will be provided. Either drain tile or open ditches may be used, whichever is the most practicable and satisfactory method of providing proper drainage. In developing such plans, consideration must be given to local and state drainage regulations.

VIII D 2 (cont.)

f Irrigation. In cases where irrigation development on individual farms is necessary for successful operation of the farm, plans will be made and funds provided for such development. It is important that consideration be given to making plans and providing funds for placing existing installations in good working condition as a prerequisite to loan approval. Leveling and grading, when essential, also will be included.

g Water for Livestock. Livestock watering facilities must be provided to the extent necessary to insure successful operation of livestock enterprises.

h Farm Layout and Fences. Fields will be arranged to facilitate the most economical and convenient operation of the farm and most practicable use of the land. In the construction of fences, consideration will be given to the protection of gardens, desirable arrangement of farmsteads and the contour of the land. Permanent interior fences should not be constructed until careful analysis of farm organization has determined the best location of fields with relation to each other and to nonportable buildings.

i Weed Eradication. Measures to prevent and eradicate noxious weeds will be taken where economically feasible and practicable.

j Home Orchards. Where practicable, home orchards of locally adapted fruits and berries should be encouraged. Family orchards, in general, should be limited to the number and variety of trees required to meet demands for home consumption. Borrowers should be willing and able to provide the necessary care to insure reasonable success.

k Land Clearing. In cases where clearing of land is necessary to round out an economic, family-type farm for an FO borrower, such land clearing will be provided to the extent necessary to avoid undue delay in obtaining maximum production. Land clearing may include such operations as removal of trees, stumps, brush, stones, old orchard trees, and the like.

l Reforestation. The planting of trees for timber, poles, fence posts and similar purposes, including field and farmstead windbreaks and the improvement of timber stands will be encouraged where such development materially strengthens the farm economy and offers an important source of future income.

m Landscaping. Planting of grounds, including shade trees, lawn grass and shrubbery, to make the surroundings of the dwelling attractive and homelike in appearance will be encouraged with emphasis on the use of native materials and participation by the borrower and his family in such development. The planting should not be in such proportions as to be too burdensome to maintain. Individual circumstances of the borrower and the farm situation must be kept in mind.

3 REGIONAL ADDITIONS. The minimum standards set forth under VIII D 2 above may be further added to by Regional Directors to meet local conditions.

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VIII D (cont.)

4 COOPERATION WITH OTHER AGENCIES. In accordance with National policies of cooperation and local needs and opportunities, the advice and assistance of the Soil Conservation Service, State Colleges of Agriculture, and other sources of information will be enlisted and utilized in planning land development on FO farms.

E Minimum Standards for Construction.

1 GENERAL. The welfare of the borrowers, the broad general benefits to be gained by the ownership of family-type farms, and the security of the loans made, require that certain minimum standards be established with respect to structures on farms purchased, enlarged or developed with FO loans. These minimum standards, listed below, must be interpreted in each case with judgment. Emphasis upon the letter rather than upon the spirit of a certain requirement may do more harm than good. Concessions which involve compromising the whole principle of standards, on the other hand, must be avoided.

2 No attempt should be made to repair buildings which are in such condition that they should be demolished and replaced by new structures. On the other hand, structures having several years of useful value should not be destroyed.

3 MINIMUM STANDARDS DEFINED.

a Windows and doors will be in good repair and properly screened, and will be in sufficient number to provide adequate light and ventilation.

b Privies must meet State Health Department approval in design and location.

c The water supply will come from wells, springs or cisterns and should be constant and uncontaminated from surface seepage. Wells and springs will be located to avoid pollution from barns and outdoor toilets. Wells will have concrete slab covers with sanitary type pumps properly installed. Springs and cisterns must be kept clean and tightly covered.

d Foundations must be adequate and sound, and floors in good condition.

e Roofs must be watertight. Exterior walls of wood, in general, should be protected by paint or other preservative. This may not be practicable, however, in the case of old structures with very rough exterior finish or temporary buildings.

f Chimneys must be so constructed and in such repair that they are not fire hazards. New chimneys should be built from the ground up with clay tile or other suitable lining. Old chimneys should be examined thoroughly. They should be well braced when not built to the ground, the mortar joints should be tight, and no frame should be built into the chimney.

g Sleeping quarters should be adequate to meet family needs.

VIII E 3 (cont.)

h Walls and woodwork should be clean and in good repair.

i Ceilings must be not less than seven feet four inches high for all new dwellings, and, in cases of remodeling, this standard should be met insofar as practicable.

j Kitchens in both new and remodeled houses should be adequately lighted and ventilated, properly equipped with sinks, cupboards, drawers and an adequate amount of working surface to meet the requirements of the particular family.

k Steps leading into the house, to the upstairs and into the cellar should be made safe and firm. The upstairs and cellar steps, especially, should be protected by handrails.

l There should be adequate provision for storing food, clothing, utensils, tools, produce, and so forth.

m There should be adequate shelter for poultry and livestock.

4 The above requirements may be further added to by Regional Directors in order to meet local needs.

F Acceptance of Minimum Standards by Applicants. When it develops in the course of negotiations with an applicant that he is not in accord with the minimum standards of farm development established by the Farm Security Administration in furtherance of the provisions of the Bankhead-Jones Farm Tenant Act, the remedy is not to force him to accept such standards against his will. On the contrary, the remedy is to refrain from making him a loan. Every effort should be made to remove all question of doubt as to the applicant's attitude toward FSA minimum standards before the final commitment is made with respect to his loan.

IX OPTIONING AND CERTIFICATION OF FARMS:

A Optioning Farms.

1 An option may be taken on a farm, or on a tract to be purchased in connection with an FE loan, at any time which appears to be opportune. Experience has been generally favorable to optioning prior to appraisals of earning capacity, making of cost estimates of repairs and improvements, and development of Farm and Home Plans. Every effort should be exerted to take the original option at the lowest cash figure which the vendor is willing to accept. However, it should be understood that Form FSA-596, "Earning Capacity Report," the Farm and Home Plan, and Form FSA-643, "Improvement Estimates," may indicate the necessity of a purchase price lower than the option price. Hence, these factors should be determined as promptly as possible.

2 Side agreements between prospective borrowers and vendors upon a purchase price greater or less than the option price will not be permitted, and such action will be deemed grounds for the cancellation of the loan or for declaring the amount unpaid immediately due and payable.

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IX (cont.)

B Certification by the County FSA Committee.

1 The FSA Supervisor will arrange for a meeting of the County FSA Committee to consider the "Earning Capacity Report," Farm and Home Plan, and the "Improvement Estimates." The Assistant FO Specialist, the District FSA Supervisor, and the representative of the District Engineer, when possible, should attend at least the first meeting of the Committee and explain their findings. The Committee will then be ready to certify as to the reasonable value of the farm and to recommend that the loan be made.

2 Under the provision of Title I, Section 2 (b) of the Bankhead-Jones Farm Tenant Act, it is the Committee's legal responsibility to certify that an applicant is eligible to receive the benefits of the Act, that the farm is of such character that there is a reasonable likelihood that the making of a loan with respect thereto will carry out the purposes of the Act, and also to certify the amount which it finds to be the reasonable value of the farm. Section 3 (a) of the Act establishes that no loan will be in excess of the amount certified by the Committee to be the reasonable value of the farm. The Committee will make the certification referred to, and will recommend the amount of the loan to be made, on Form FSA-491, "County Committee Certification," which will be prepared in an original and two copies. The original and first copy will be placed in the original loan docket, and the second copy filed in the copy of the loan docket.

3 Committee members should arrive at their determination of the reasonable value of the farm on the basis of their own personal studies, giving due consideration to the information contained in the "Earning Capacity Report" and the Farm and Home Plan. The amount certified by the Committee to be the reasonable value of the farm when improved, should represent the full value even though the loan recommended is less.

4 The Committee will indicate on Form FSA-493, "Value of Applicant's Unit," its determination of the value less planned improvements of any unit to be enlarged or developed, and the value less planned improvements of the new tract if one is to be purchased. This determination will be reached after a review of the recommendations of the Assistant State TP Specialist or appraiser.

C Cost of Farm. The cost of the farm to the borrower should not be greater than is justified on the basis of the earning capacity of the farm. It is the earning-capacity value rather than that indicated by the Farm and Home Plan that should be considered in determining the price at which an option can be accepted and the total amount of liens which can be refinanced. If, however, the Farm and Home Plan shows definite possibilities of increased income under good management, the acceptance price of the option in the case of TP loans, cost of refinancing, or both in the case of FE loans, may be slightly higher than is indicated on the "Earning Capacity Report," in order to obtain or develop a particularly desirable farm. The benefits of the increased income should accrue in general, however, to the borrowers and should not be bartered away through excessive prices to vendors or through unjustified payments to lien holders.

X DETERMINATION OF EARNING CAPACITY:

A Definitions. It is essential that FSA employees and Comitteeen, who are concerned with making FO loans, understand the exact meaning of "earning-capacity value," "value less planned improvements," and "market value."

1 Earning-capacity value is the value established by a determination of the investment in a farm that, on the basis of certain assumptions, can be repaid from the earnings derived from operating the farm. In the FO program the important assumptions are:

a That the farm will be purchased, enlarged or developed with the proceeds of a three per cent loan, to be amortized over a stated repayment period under a variable repayment system.

b That the improvements on the farm will meet certain known standards of health, comfort and convenience.

c That necessary family-living and farm-operating expenses and the cost of necessary repairs and replacements, as well as principal and interest payments, must be met out of the farm income.

d That average yields and long-time average prices will be used in estimating income and expenses.

e That the farm will be operated by a farmer of typical or average managerial ability.

f That after all, since estimates are only estimates, and formulas are only formulas, they are to be used as aids to judgment in determining what it is safe and wise to pay for a farm rather than as substitutes for judgment. In other words, earning-capacity value represents a judgment by informed persons who have used estimates wisely in arriving at their conclusions.

2 Value, less planned improvements, is arrived at by subtracting what it will be necessary to spend on a farm to make it habitable and operative from the earning-capacity value. For example, if a farm has an earning-capacity value of \$6,000 and it will be necessary to spend \$2,000 fixing it up, it follows that \$4,000 is as much as the buyer can pay the seller.

3 Market value is the value represented by prevailing prices for the farms in a community. Sometimes, because of location, appearance, ~~current~~ prices or other factors, the market value is higher than the earning-capacity value. In such cases, buyers must stick close to earning-capacity value. Of course, a little "give and take" is permissible in the process of bargaining. Sometimes market value is less than earning-capacity value, and, when it is, purchases should be made on the basis of market value. Of course, it is unwise to pay more for a farm than is necessary.

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X (cont.)

B Use of the Earning-Capacity Report by County FSA Committee and FSA Supervisor. Each Committeeman and FSA Supervisor should understand the basic principles of the "Earning Capacity Report" in order to use it to best advantage. It is advisable for the Assistant FO Specialist to go with the Committee on one or more farms in order to explain these principles and the methods used in the preparation of the Report. By applying these principles and thereby eliminating unsatisfactory farms at the outset, it should be possible to avoid unnecessary requests for the services of an Assistant FO Specialist, with the attendant time and expense involved. The "Earning Capacity Report," if favorable, constitutes a supporting document for the loan. In cases in which it indicates that the option should be reduced, every effort should be made to obtain such reduction. Often information in the "Earning Capacity Report," such as indications of soil deficiency or special hazards, will be helpful in obtaining reductions. Various types of information provided in the "Earning Capacity Report," such as the detailed map of the farm, the inventory of soil resources, and recommended land improvements should be carefully considered in the preparation of the docket.

XI GENERAL REGULATIONS:

A Loan Limits.

1 No FO loan will be made if the total cost of the complete farm unit, computed as in paragraph A 3 below, exceeds \$12,000.

2 No TP or FE loan will be made if the total cost of the complete farm unit, computed as in paragraph A 3 below, exceeds the reasonable value of the farm with contemplated improvements, as certified by the Committee.

3 The total cost of the complete farm unit will include (a) the purchase price of all land to be acquired, (b) the value less planned improvements, as determined by the Committee, of any equity which the applicant may have in the farm, (c) the amount necessary for refinancing, (d) the amount necessary for planned repairs and improvements, and (e) the service fee.

B Price Limits.

1 The 1946 Appropriation Act contains the following limitation with respect to the funds for FO loans:

" . . . and no loan, excepting those to eligible veterans, shall be made in an amount greater than 15 per centum above the census value of the average farm unit of thirty acres and more in the county, parish, or locality where the purchase is made, as determined by the 1940 farm census; . . . "

2 If a farm lies in two or more counties, parishes or localities, the price limit to be applied is that for the county, parish or locality in which the principal residence on said farm is located or is to be constructed.

XI (cont.)

C Terms of Loans. The Bankhead-Jones Farm Tenant Act recites the following terms:

"Sec. 3. (a) Loans made under this title shall be in such amount (not in excess of the amount certified by the County Committee to be the value of the farm) as may be necessary to enable the borrower to acquire the farm and for necessary repairs and improvements thereon, and shall be secured by a first mortgage or deed of trust on the farm.

"(b) The instruments under which the loan is made and security given therefor shall --

"(1) Provide for the repayment of the loan within an agreed period of not more than forty years from the making of the loan.

"(2) Provide for the payment of interest on the unpaid balance of the loan at the rate of 3 per centum per annum.

"(3) Provide for the repayment of the unpaid balance of the loan, together with interest thereon, in installments in accordance with amortization schedules prescribed by the Secretary.

"(4) Be in such form and contain such covenants as the Secretary shall prescribe to secure the payment of the unpaid balance of the loan, together with interest thereon, to protect the security, and to assure that the farm will be maintained in repair, and waste and exhaustion of the farm prevented, and that such proper farming practices as the Secretary shall prescribe will be carried out.

"(5) Provide that the borrower shall pay taxes and assessments on the farm to the proper taxing authorities, and insure and pay for insurance on farm buildings.

"(6) Provide that upon the borrower's assigning, selling, or otherwise transferring the farm, or any interest therein, without the consent of the Secretary, or upon default in the performance of, or upon any failure to comply with, any covenant or condition contained in such instruments, or upon involuntary transfer or sale, the Secretary may declare the amount unpaid immediately due and payable, and that, without the consent of the Secretary, no final payment shall be accepted, or release of the Secretary's interest be made, less than five years after the making of the loan.

"(c) Except as provided in paragraph (6) of subsection (b), no instrument provided for in this section shall prohibit the prepayment of any sum due under it."

Section II

XI (cont.)

D General.

1 The word "farm," as used in procedure relating to FO loans, includes the land, buildings, fences, water systems and other improvement items generally considered appurtenances; and funds for such items may be included in FO loans. The proceeds of FO loans may not be used to purchase or refinance machinery, tools, equipment, livestock and similar items not generally considered appurtenances. In some states, certain improvement items or appurtenances which may be purchased or refinanced with the proceeds of FO loans as indicated above, are legally defined as personal property rather than real estate. In all such cases, the FSA Supervisor will see that such personal property is free from any liens or encumbrances.

2 Arrangements will not be made with vendors to construct new or to repair old buildings, in order to comply with the anticipated needs of prospective TP or FE borrowers. Such construction work will be done by or for the prospective borrower and will be subject to established regulations as to types of structure, wage and hour conditions, inspection, liability insurance, and so forth.

3 None of the proceeds of an FO loan may be used for the construction of any improvements not located on the land covered by the Government's mortgage.

4 When a borrower has funds of his own to apply toward the purchase, enlargement or development of his farm, such funds will be used as part of the purchase price in the case of a TP or FE loan. Such funds may not be held back for use in making additional and unapproved expenditures.

5 Any existing debts on a farm which is to be enlarged must be paid off with the proceeds of the FE loan so that there will be no liens upon the farm other than the Government's mortgage.

6 A service fee will be included in each FO loan to pay for health examination, deed and mortgage recordation, any portion of the expense of title examination and title insurance chargeable to the borrower, bank charges for handling deposits, and other expenses necessary in connection with the acquisition of the land and the closing of the loan. To the sum of these charges, there will be added the sum of five dollars (\$5) to take care of possible underestimates. Any questionable charges to the service fee will be referred to the Regional Attorney.

7 Any balance of an FO loan which is unexpended after completion of the planned expenditures will be applied as a repayment on the loan.

E RR Loans.

1 When FO borrowers are unable to accumulate sufficient capital to care for their operating expenses, they are eligible for standard RR loans which may be made according to regular rehabilitation procedure. Under this policy, borrowers will not be obliged to pledge any of their crops, livestock or equipment as security to any agency other than the FSA.

XI E (cont.)

2 FO borrowers should be encouraged to set aside sufficient operating capital to refinance the annual production of crops and livestock, thus making it unnecessary to rely upon either private or Government credit for these operating funds. However, making the annual interest and principal payments on FO loans and getting enough ahead of schedule under the variable payment plan to provide at least a small margin of safety, are obligations which come ahead of building up reserve operating capital.

3 The proceeds of RR loans will not be used to pay the principal and interest on FO loans.

F Grants. An FO borrower who has met with unforeseeable or unpredictable calamity or disaster, involving loss or expense which he cannot meet without serious impairment of his credit or solvency, is eligible for grants on the same basis as any other applicant.

XII. VARIABLE PAYMENT PLAN: Title IV of the Bankhead-Jones Farm Tenant Act contains this provision:

"Variable Payments

"Sec. 48. The Secretary may provide for the payment of any obligations or indebtedness to him under this Act under a system of variable payments under which a surplus above the required payment will be collected in periods of above normal production or prices and employed to reduce payments below the required payment in periods of subnormal production or prices."

A General. TP borrowers, whose loans were approved subsequent to July 1, 1941; FE borrowers, whose loans were approved subsequent to July 1, 1942; and purchasers of project units transferred to the FO Division, will be expected to retire their indebtedness under the system of variable payments explained below.

B Basic Philosophy. In carrying out the provisions of a variable payment plan, it is not the intention of the FSA to deprive any borrower of the privilege of utilizing the full period agreed upon for the retirement of his debt. On the contrary, the aim is merely to assist the borrower in creating a margin of safety to protect his loan at all times against delinquency.

C Agreements. Each borrower under the variable payment plan will agree to the following:

1 To maintain, in a manner prescribed by the FSA, a complete record of all income received, and all expenses incurred, in carrying out his farm and home plan, and to make such records available for examination at reasonable times by the FSA Supervisor.

2 To submit to the FSA Supervisor, within 30 days after the close of his fiscal year, an annual income return showing all income received from whatever source and all expenses incurred in carrying out his farm and home plan for such fiscal year.

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XII C (cont.)

3 To apply such amounts of his income toward the retirement of his FO loan as are determined by the Government on the basis of the method outlined in paragraph D below.

4 To abide by the decision of the FSA as to whether progress made in retiring his debt under the variable payment plan is satisfactory, or whether the record kept of income and expense is sufficiently complete or accurate to determine the amount of his FO payment; and, when it is determined by the FSA that progress in retiring the debt under the variable payment plan is not satisfactory, or that the record kept of income and expense is not sufficiently complete or accurate to determine the amount of such payment, to change over to the fixed annual payment method and pay all delinquent interest and retire all remaining unpaid principal by annual installments of principal and interest so computed as to complete the retirement of the debt not later than the maturity date of the original promissory note.

D Determination of Cash Income to be Applied to FO Debt.

1 On the basis of the annual income return, the Government will determine the portion of the cash income to be applied to the FO debt in the following manner:

a First, there will be allowed all justifiable cash family-living and farm-operating expenses. This will permit the repayment annually of any loan, including the interest thereon, used to pay such expenses and the replacement of any of the borrower's funds used for operating capital.

b Second, there will be allowed annual installments on chattel or other old debts (it being assumed that such installments have been adjusted reasonably to cover the useful life of the chattels); if there are no chattel or other old debts, there will be allowed for the purchase of new chattels, if needed, an amount roughly equivalent to chattel depreciation; if the current installment on old debts is less than the estimated amount of chattel depreciation, there will be allowed for the purchase of new chattels, if needed, an amount sufficient to make the combined outlay for old debts and new chattels roughly equivalent to chattel depreciation. Amounts allowed for the purchase of new chattels will be cumulative, and any such amounts not actually expended in any one year may, if necessary, be added to amounts allowed for this purpose in following years.

c Third, there will be applied on the borrower's FO debt an amount sufficient to pay the scheduled annual installments of principal and interest, or to bring the borrower up to schedule when he is behind schedule on such debt. The remaining income will be applied to (1) get the borrower ahead of schedule on his real estate debt; (2) speed up the retirement of the chattel or other old debts; (3) build up cash operating capital so that less money will have to be borrowed for this purpose; (4) buy War Bonds or make capital investments necessary to increase food production or which will result in sound and justifiable expansion of operations or improve living conditions. Since the payment of the annual installment of principal and interest on the real estate debt is last in the priority of fixed current debt obligations, it will naturally be

XIII D 1 c (cont.)

the unpaid debt when there is not enough income to meet all fixed debt obligations. The real estate debt (FO), therefore, under the variable payment plan, should be the first to benefit when income exceeds the amount required to meet approved family-living and farm-operating expenses plus other fixed annual debt obligations. The aim should be to work toward getting and maintaining the real estate debt at least two years ahead of schedule by larger payments in good years. This may be done in a single very good year or in three or four somewhat better-than-average years. Under the above policy, borrowers will be able to speed up the payment of chattel debts or build up cash operating capital or do some sound and justifiable expanding of operations and improving living conditions while they are getting ahead of schedule.

d So long as the borrower maintains his account two years ahead of schedule, any additional repayment of principal when funds are available for that purpose will be discretionary with him. He should be encouraged to maintain and by degrees increase his margin of safety, but pressing ahead to pay off the full debt in a third or half the allotted time is not to be encouraged when this is likely to be done at the expense of desirable standards of living. Without the consent of the Government, no final payment will be accepted less than five years from the original date of the loan.

E Ahead or Behind Schedule.

1 The borrower will be considered ahead (or behind) schedule when total payments made, exclusive of extra payments, as of the end of the grace period, are in an amount greater (or less) than the total amount due and payable, as of that date, under the terms of his promissory note, together with any amendments thereto. The borrower will be considered two years ahead of schedule when he (a) has paid all installments due and payable under the terms of his promissory note, together with any amendments thereto, and (b) has in addition made payments, exclusive of extra payments, equal to twice the annual installment provided for in his note, together with any amendments thereto.

2 When a borrower's amortization schedule is recalculated, he will be considered on schedule as of the date of reamortization. Thereafter, he will be considered ahead (or behind) schedule when total payments subsequent to reamortization, exclusive of extra payments, are greater (or less) than the sum of the revised annual installments which should have been paid as of the end of the grace period.

3 The borrower's loan will not become delinquent because he is behind schedule, but it will become delinquent when he fails at any time to pay the amount for which he is billed.

XIII KEEPING FO FARMS IN THE PROGRAM:

A General. After title to a family-type farm has been vested in an eligible FO borrower, it is the aim of the FSA to foster continuation of the ownership thus established for the longest possible period of time and to facilitate its perpetuation

Section II

XIII A (cont.)

within the borrower's family from generation to generation.

B Sale of Farms by Borrowers.

1 Sales of FO farms outside the program should be discouraged, except under special circumstances.

a Approval of requests to sell may be readily granted under certain justifiable situations, such as:

(1) When significant and unanticipated changes in circumstances of the family arise and it is obvious that the sale will be in the interest of the family and the Government.

(2) When urban or industrial areas spread out and engulf the communities in which the farms are located and create values and conditions that operate against the success of family-type farming.

b Under circumstances such as in (1) above which fully justify the family's request to sell, efforts should be made to retain the farm in the FO program through transfer to or purchase by another FO applicant, except that FO borrowers will not be asked to forego substantial profit through outside sale or to remain liable for the obligations of the transferee. When losses to the Government can be avoided or greatly reduced by permitting sale outside the program, such sales should be arranged. However, when the Government has acquired title to an FO unit suitable for the program, it should be sold at earning-capacity value to an eligible FO applicant, unless losses of large amounts may be greatly reduced by sales outside the program.

2 We are under special obligation at this time, when there is a threatened or actual inflationary trend in farm-land prices, to carry out the intent of the Bankhead-Jones Farm Tenant Act and so far as possible prevent speculative sales. The assistance of our Committees will be helpful in realizing this aim. In the future, therefore, all requests for permission to sell farms outside the program for profit, which are based upon the borrower's inability to carry on farming operations, lack of help, or other similar reasons, must be supported by a written statement from the FSA Supervisor and Committee to the effect that the borrower's claims have been investigated and found to be true, and that the Committee concurs in the request for authority to sell.

C Preventive Measures. Many of the causes leading to liquidation can be overcome by more careful selection of applicants and farms. The following are among the situations often overlooked which are likely to lead to avoidable liquidations, and Committeemen should be advised as to their importance and asked to give them due consideration when passing upon applicants and farms:

1 MISTAKES IN FAMILY AND FARM SELECTION TO BE AVOIDED.

a Granting loans to families who do not fully understand and agree to

XIII C 1 a (cont.)

the provisions of Form FSA-317, "Agreement."

- b Granting loans to families whose aspirations and capacities are likely to cause them to expand their operations beyond the scope of the family-type farm before retiring their debt to the Government.
- c Granting loans to applicants who are equipped to operate or who have been accustomed to operate on a larger scale than a family-type farm will permit.
- d Granting loans to families on the basis of a present adequate family supply of labor without full understanding and agreement as to the continued operation of the farm by the family after the labor supply dwindles.
- e Granting loans to applicants who in times past have gained their livelihood in occupations other than farming and who are likely to want to return to those occupations when opportunities are favorable.
- f Locating families on farms which will necessitate the adoption of a system of farming to which they are not accustomed.
- g Locating families on poor and inadequate farms which do not have earning capacity sufficient to repay the loan and sustain a decent standard of living for the family.
- h Purchasing farms on inflated land values out of line with long-time earning value.
- i Locating families in communities in which some or all of the members are likely to be dissatisfied because of a change in neighborhood or in racial, religious or social environment.

XIV DEMANDS FOR RELAXATION OF FO POLICY GROWING OUT OF THE WAR SITUATION:

A General. Conditions related to the war situation have created some demand for relaxation of the following FO policies and designed to safeguard the integrity of family-type farms embodied in the borrower's informal "Agreement."

1 We expect to live on and operate the farm and maintain it as a family-type unit.

2 We agree: (a) Not to rent our farm in whole or in part to anyone else; (b) not to hire outside labor except as necessary to carry out the provisions of the Farm and Home Management Plan; and (c) not to operate our farm under any share-cropper arrangement.

B Underlying Philosophy. The FSA stands committed to the proposition that any peacetime policies that operate to the disadvantage of the war program are subject to revision. It is highly important, however, that sharp distinction be drawn between deviations from established policies that are well justified by war conditions and those

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XIV B (cont.)

that may spring from a desire to take advantage of the war situation to gain ends that are at variance with the purpose and intent of the law under which we operate.

C Policies Applicable to Various Types of Cases.

1 ACCEPTING OFF-FARM EMPLOYMENT.

a When Acceptance of Such Employment Involves Removal from FO Farm.

(1) Opportunities to obtain high wages in industry have caused some FO borrowers to request permission to leave their FO farms and move to locations closer to employment centers. In passing upon requests of this character it is well to apply the principle that each person should serve where he can make the largest contribution to the war effort.

(2) There is no longer any question about the relation of food to winning the war and winning the peace. An FO borrower is assumed to be a relatively efficient producer of agricultural essentials and to be operating a farm unit that will utilize his full productive effort and that of his family. It should be possible for each FO borrower to bring his farm up to the "16 war food unit" equivalent if it is not already up to that level. The operation of such farm was justification for deferment from military participation under the Selective Service Act. Since it is that important, it would appear to be as important as industrial employment. Considered from the standpoint of the war effort, therefore, as a general rule, there would not appear to be justification for setting aside the requirement that an FO borrower will live on and operate his farm.

(3) The Regional Director, however, is authorized to pass upon individual cases on their respective merits. Before he approves a request from an FO borrower for authority to move off his farm for the duration, such request should be supported by a favorable written recommendation from the Committee. In passing upon the case the Committee should do so with full knowledge of the considerations set forth in this Handbook. There should also be evidence that the farm will be maintained in maximum production of agricultural essentials and that the security of the Government will be safeguarded. Generally speaking, if a borrower wants to leave his farm and move to another locality, he should be willing to transfer it to an eligible family who will take it over and operate it as an essential farm.

(4) Borrowers, in their own interest, should be advised that leaving farms to accept industrial employment during periods of high wages has often proved less advantageous than continuing on the farms.

b When Accepting Such Outside Employment Does Not Involve Removal from FO Farm.

(1) The larger number of requests for release from the terms of the

XIV C 1 b (1) (cont.)

informal "Agreement" may be expected to fall under this heading. Many borrowers will feel that they can, by accepting outside employment, greatly augment their incomes and still keep their farms in maximum or near-maximum production and that there will be no unusual deterioration of the Government's security. Withholding approval of requests to accept such off-farm employment would doubtless be interpreted as an unreasonable exercise of bureaucratic authority and would be resented by the borrower who wants to take such action and be disapproved generally by his friends and neighbors. However, effect upon the war effort should be the principal point on which the decision turns and in all such cases the judgment and recommendation of the Committee should be obtained. If approval is given by the Regional Director, there should be evidence that satisfactory arrangements have been made for maintaining the farm in good condition and in full production. Increased earnings should be used to accelerate the retirement of the FO debt. Off-farm income should be recorded in the Family Record Book and should be taken into account in determining FO and other debt payments.

(2) The arrangement should be for the duration only and there should be a written understanding that the borrower will abandon outside employment and personally operate his farm after the war period. If he does not wish to do this and he desires to gain his livelihood other than by operating his family-type farm, he should be willing to transfer it to another eligible family.

c When Such Employment is Seasonal and Does Not Interfere with Borrower's Personal Operation of his Farm. So long as the off-farm employment is seasonal and so timed as to leave the borrower free to carry on his usual farming operations, it is not objectionable, and no formal approval or authorization is necessary. As a rule, however, a borrower who produces all the dairy, poultry, pork and beef products and all the essential foods and feeds that his farm is capable of producing will not have much if any time for off-farm employment.

2 RENTING ADDITIONAL LAND.

a As a general rule, it is assumed that a family-type farm will utilize the labor available in the family and that the best contribution an FO borrower can make under such circumstances is to devote his efforts toward bringing his own farm up to the highest possible state of production. It is recognized, however, that there may be instances in which the farmer's labor and equipment will enable him to operate adjacent lands that might otherwise lie idle, in addition to his own farm. When such cases clearly exist and do not represent a shift from dairy, meat, poultry and other essential war products to less essential wheat and cotton crops, the Regional Director may authorize the borrower to operate the additional acreage on a temporary basis for the duration. The combined operations should be planned and budgeted as one farm enterprise and the family records should be kept accordingly. An informal written "Agreement" should be entered into with the borrower, reciting the

Section II

XIV C 2 a (cont.)

justification for leasing and operating the additional land as a war measure, acknowledging the temporary nature of the arrangement and specifying that it will be terminated when the emergency passes.

b The leasing of additional land should not be authorized when it involves any considerable outlay of capital for the purchase of machinery in excess of that required for operating the borrower's own farm. It is not probable that any farmer equipped to operate on a materially larger scale than a family-type farm will be content to resume family-type operations. If beneficiaries of Government loans designed to establish families on owner-operated family-type farms use such funds to establish a base for extensive operations, the purposes of the Act under which we operate will be defeated.

3 HIRING LABOR OR OPERATING WITH SHARECROPPERS.

a It is assumed that an average farm family can operate a "16 war food unit" equivalent farm without employing much outside labor. The operations of the Selective Service have doubtless hastened the departure of young men from the farms of FO families, but it is assumed at the time loans are made that, when young men reach their maturity, they will leave the farm and establish homes of their own. Adjustments to meet the loss of young men coming of age are, therefore, normal adjustments, and our policies with respect to the employment of labor are sufficiently flexible to permit the keeping of farms in maximum production of essentials. It is expected that this will be done and that provision for necessary labor will be included in the Farm and Home Plan of each borrower. No special authority is required for this action.

b It is assumed that situations will seldom arise which cannot be met by some means other than by resorting to a sharecropping arrangement. Such an arrangement is particularly inconsistent with the spirit and intent of the law under which we operate. Regional Directors personally should pass upon each request of character and give their approval only when there is evident justification from the standpoint of increasing the production of agricultural essentials. As in all other cases mentioned herein (except the employment of labor within the limits of existing authorizations mentioned in the preceding paragraph), approval should be conditional upon the recommendation of Committees and should be for the duration only.

XV HOLDING THE LINE IN FO FARM REAL ESTATE VALUES:

A "We Must Hold the Line."

1 In the words of the late President, "We must hold the line" against inflation, including farm real estate inflation. This statement has been re-emphasized by our present President.

2 Despite efforts of an educational nature to keep land prices down, there has been a continuous rise since early 1941. Again it cannot be emphasized too strongly that an unwarranted inflation in land prices may be followed by drastic

XV A 2 (cont.)

deflation later, which will bring with it loss of farms and homes and widespread suffering. All of us must continue to do everything in our power to prevent a recurrence of some of the tragedies that have resulted in the past from borrowing money to buy farms at inflated prices.

B How We Can Hold The Line. Among the important steps that can and should be taken are:

1 CONTINUE TO BASE LOANS ON LONG-TIME EARNING-CAPACITY VALUES. Earning-capacity determinations made on the basis of approved long-time prices will reflect net incomes that will support sound long-term farm values, but will not support inflated values. Sound earning-capacity determinations will discourage payment of excessive prices for farms. The long-time prices used in the FO program are essentially the same as the "normal" prices used by the Farm Credit Administration, and it is encouraging that two Federal agencies are standing together in an effort to maintain stable values. In order to finance farms on a true earning-capacity basis, it is more important than ever that good methods of bargaining and negotiating for reasonable prices be used.

2 EXPAND THE PROGRAM IN FAVORABLE AREAS. In practically every state there are localities and counties where farms can still be purchased on a safe earning-capacity basis. The number of loans should be increased in such areas as far as practicable under the limitations governing the program. All personnel concerned should at all times be on the lookout for suitable farms at favorable prices.

3 WITHDRAW FROM INFLATED AREAS. Our field personnel Committees and the public should be informed of our intention to "hold the line." When farm real estate prices appear to be getting out of bounds in particular areas, consideration should be given to withdrawing the program from such areas until such time as sound loans can be made; and the situation should be discussed with State FSA Advisory and County FSA Committees. If a decision is made to suspend operations, such action will have added weight if based on the combined judgment of FSA personnel and Committees. When action of this kind is taken, it is suggested that it be announced publicly.

4 EXHAUST ALL POSSIBILITIES OF SOUND PURCHASES. Field personnel have reported several special methods which have been helpful in "holding the line" under adverse conditions. All of these may not work equally well in all areas, but these and any other methods which field personnel may be able to devise should be used to the fullest extent. Some of these methods are the following:

a Instruct Committees to keep on the alert for farm land that may be available at reasonable prices.

b Broaden the selection of applicants and increase the number instructed to look for farms. In many cases a relatively small number of borrowers are approved, and only a small percentage of these are able to locate satisfactory farms. If 100 applicants are looking for farms, there will be more suitable farms located than if only 10 applicants are looking.

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XV B 4 (cont.)

c Settlement of estates may be a source of farms at reasonable prices, especially where one of the heirs with a negligible undivided interest is an eligible applicant.

d In some cases eligible applicants are able to purchase from relatives at reasonable figures. Such cases, of course, should be fully justified.

e Be on the alert for farmers who are interested in selling their farms because of labor difficulties. In some cases these are larger than family-type farms and may be subdivided.

f Be on the lookout for farmers who have reached retirement age and who may be willing to sell if they are encountering difficulty in getting labor and machinery.

g It is reported that in some cases owners are willing to sell to tenants whom they are interested in assisting or to eligible veterans at reasonable prices.

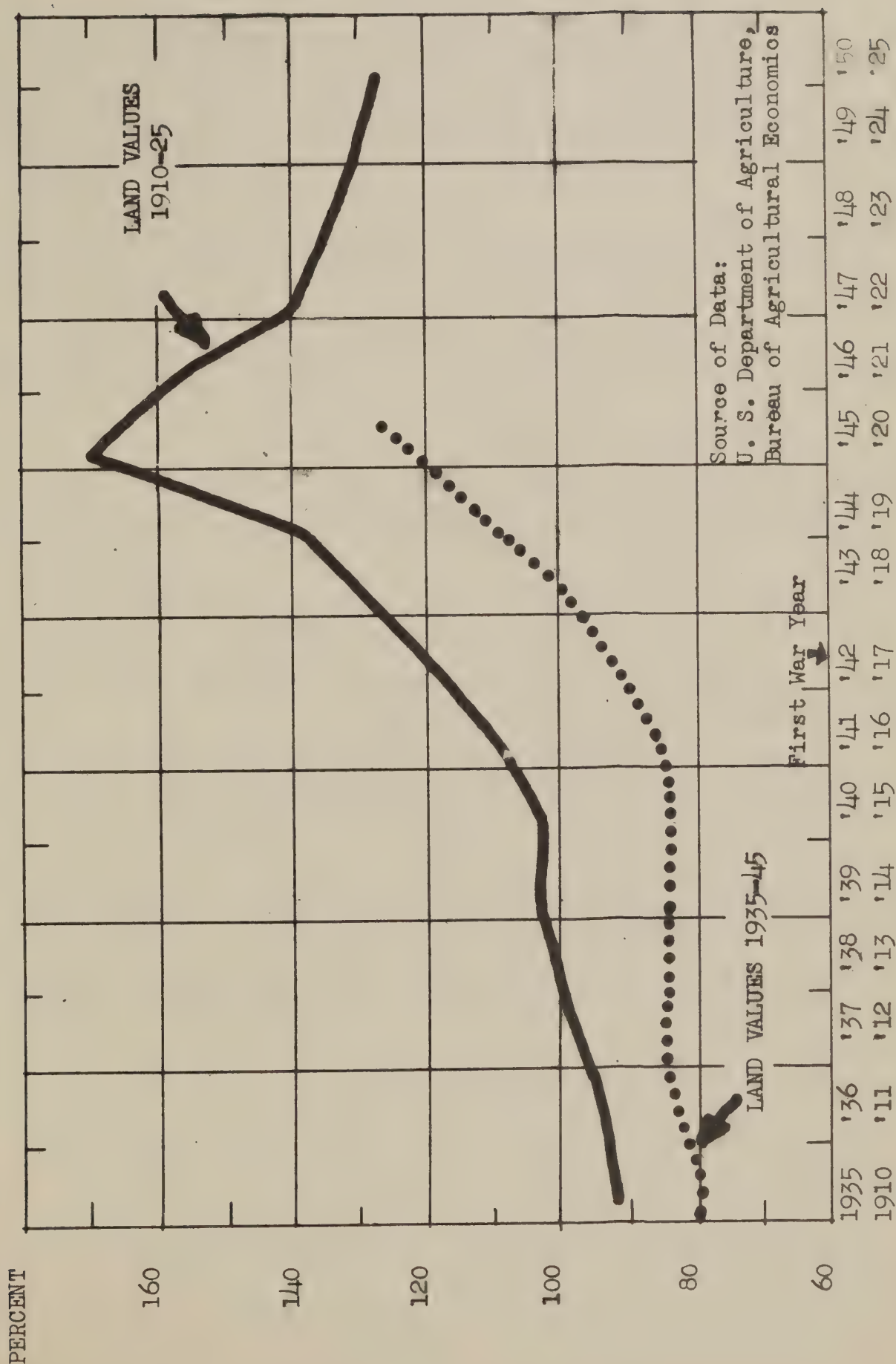
5 CONDUCT AN EDUCATIONAL PROGRAM. One of the most important steps that can be taken at this time by personnel concerned with the FO program is to advise and inform field staff members, Committeemen and borrowers relative to the problem of controlling land-price inflation. Such an educational program would include stating the problem, presenting various types of information and discussing what can be done. The following topics are suggested:

a The Dangers of a Land Boom. The possibilities of inflation referred to above should be pointed out. If past experience can be taken as a guide, the marked upward swing in land prices will be followed by a sharp downward trend after the war. The higher values go, the more likely they are to decline later. It is to the interest of farmers and others that such inflation in farm real estate values be avoided.

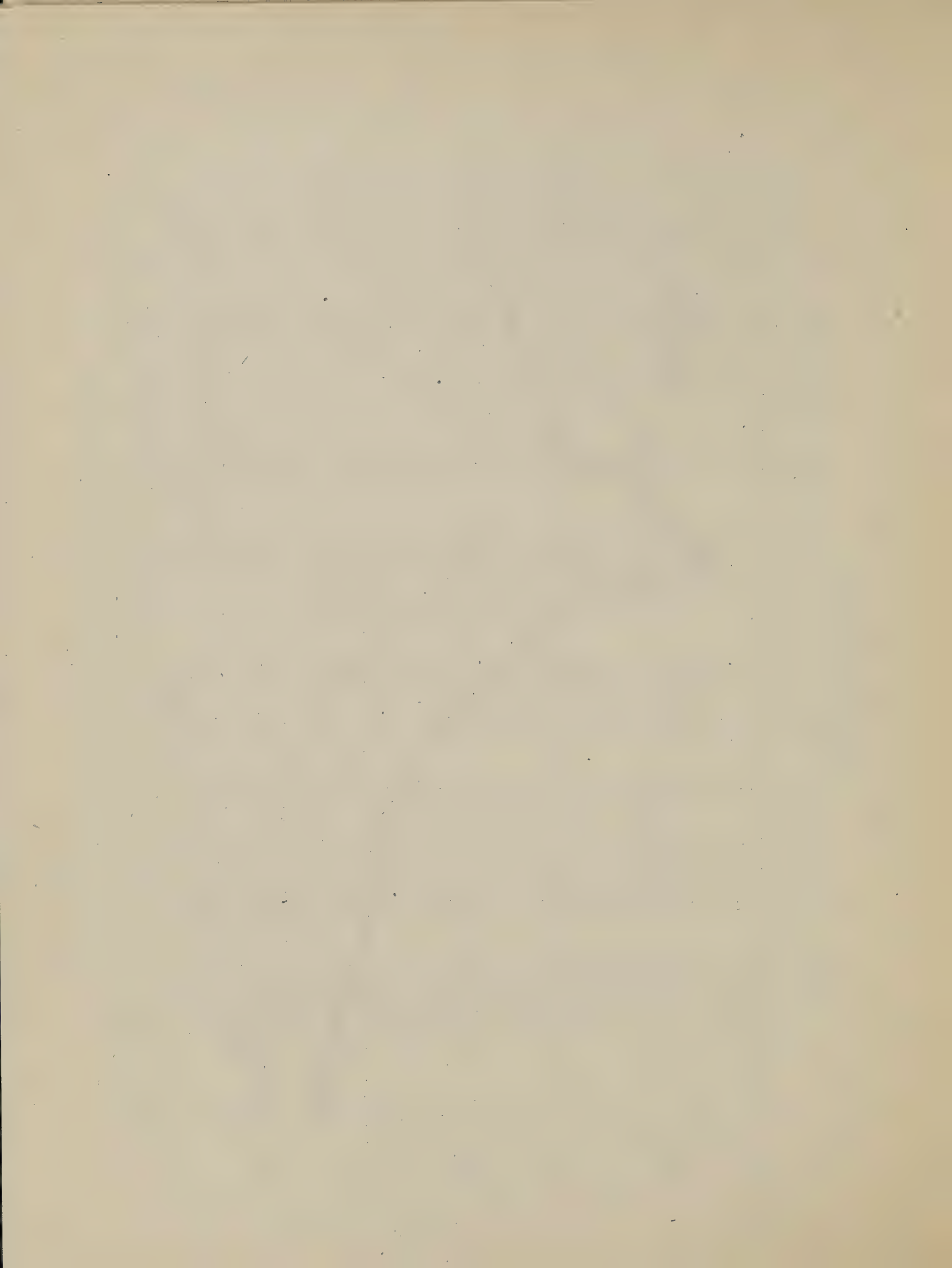
b The Real Values of FO Farms. Our borrowers should not think of the value of their farms merely in terms of dollars. They should not think of the value of the farm as changing with the ups and downs of farm real estate prices. Rather they should think of the farm in terms of human values such as the opportunity it offers for making a home, for increasing the standard of living and for obtaining security. Such a concept of the real worth of FO farms leaves little room for the speculative approach or for the desire to cash in on a profit by selling the farm.

c The Soundness of the Long-time Earning-Capacity Approach. Our policy of basing loans on earning capacity should be explained to all concerned. Committeemen and FSA Supervisors can help materially in "selling" applicants, vendors and the public generally on the soundness of this approach, as well as on the benefits of the FO program in general.

FARM REAL ESTATE VALUE PER ACRE
1910-25 AND 1935-45
(1912-14 = 100)



The movement of land values during the present war to date has followed closely that of World War I.



AGREEMENT

BETWEEN THE UNDERSIGNED TENANT PURCHASE BORROWERS AND THE
FARM SECURITY ADMINISTRATION

IN OBTAINING a loan through the Farm Security Administration with which to buy a farm, it is our intention to cooperate fully in carrying out the provisions of the Bankhead-Jones Farm Tenant Act which made such a loan possible. We are satisfied with the farm we are getting and with the plans for repairing, improving, and operating it which we have developed with the help of the Farm Security Administration. We expect to live on and operate the farm and to maintain it as a family-type unit. Until our loan is repaid we agree:

1. Not to hire outside labor, except as necessary to carry out the provisions of farm and home management plans approved by the Farm Security Administration.
2. Not to rent our farm in whole or in part to anyone else.
3. Not to rent or operate additional outside lands without the written consent of the Farm Security Administration.
4. Not to operate our farm under any sharecropper arrangement.
5. To complete all new construction and all repairs and improvements on our farm as promptly as possible, according to our agreement; and not to change or modify the repair and building program without the approval of the Farm Security Administration.
6. Not to purchase additional land or sell any portion of our farm without the written consent of the Farm Security Administration.
7. In the event of unforeseen developments causing us to desire to sell the farm, we agree to sell it to a buyer approved by the Farm Security Administration.
8. Should it become desirable for some younger member of our family to take over and carry on the operation and management of the farm, we will try to work that out in a manner that will preserve it as a home for us and maintain it also as a one-family farm.
9. We will do our best to maintain and improve the soil, prevent erosion, and keep all terraces, ditches, fences, and buildings in good repair; pay taxes and insurance before they become delinquent and otherwise care for the farm.
10. Not to sell or lease any timber or mineral rights without approval of the Farm Security Administration.

Section II

11. To keep the Farm Security Administration Family Record Book to the best of our ability and to follow as closely as possible the farm and home management plans developed by us with the help of representatives of the Farm Security Administration. We will not change these plans after they are agreed to, without discussing the desirability of such changes with our farm and home supervisors.

DATE: _____

BORROWER

WIFE OF BORROWER

THE FARM SECURITY ADMINISTRATION accepts this statement of the intentions of this borrower and his wife. Should unforeseen circumstances arise which justify a change in any part of this agreement, the Farm Security Administration agrees to make such modifications as are consistent with the law under which the loan was made and to further at all times the welfare and interests of the borrower.

DATE: _____

For the Farm Security Administration

SECTION III - COMMITTEE RESPONSIBILITIES IN CONNECTION WITH RURAL REHABILITATION PROGRAM

I GENERAL: The more a Committeeman knows and understands about the Farm Security Administration program -- what it is trying to accomplish, what activities are carried on and why, how it operates, and what over-all policies govern its operations -- the better he will be able to perform his duties in connection with that program.

The decisions that County FSA Committees are called on to make are of grave importance to the families applying for rehabilitation assistance and to those present borrowers whose cases are referred to the Committees for review. The effects of these decisions quite often are felt throughout the communities in which these families live. Every action taken by the Committee, therefore, and every recommendation which the Committee makes should represent the considered opinion and the combined best judgment of its members. For this to be possible, each Committeeman must have enough facts about the circumstances of each applicant or borrower family and sufficient information about the purposes and policies of the rural rehabilitation program to guide him in reaching wise decisions.

This does not mean, of course, that a Committeeman should know all of the detailed procedures which our Supervisors are required to follow in their transactions with borrowers and in dealing with the public. It does mean, however, that each member of the Committee should have a broad understanding of the rehabilitation program aims, the methods that are used in carrying on this work for the benefit of low-income farm families, and also that each Committeeman should become thoroughly familiar with certain fundamental principles and policies that have been established for the administration of the rehabilitation program.

This Section of this Handbook summarizes the purposes and points out the need for FSA's rural rehabilitation program. And, in order to provide members of the Committee with essential information concerning the operations of this program, there is included a brief explanation of the various activities carried on by the Farm Security Administration to promote and aid in the rehabilitation of low-income farm families. There are also summarized and stated in this Section the basic policies which must be followed in the administration of the rural rehabilitation program.

We have not repeated here all of the duties of the Committee in connection with the rehabilitation program. These duties are listed in detail under Section I paragraph III of this Handbook. It might be worth while to review these duties, now, before proceeding with this Section, so they will be kept in mind as the following pages are studied.

II PURPOSE OF THE RURAL REHABILITATION PROGRAM: The primary purpose of the rural rehabilitation program is to provide assistance to worthy low-income farmers and veterans who are unable to secure the credit they need for sound and successful farm and home operations on reasonable terms from any other source. Through the rural rehabilitation program, sound financial assistance, supplemented by practical guidance or supervision, is offered needy and deserving farmers to aid them in removing, through their own efforts and resourcefulness, deficiencies or obstacles which retard their progress and which they cannot remove without such assistance.

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II (cont.)

Rehabilitation is not a gift, nor is it something that can be purchased. Rather, it may and will be achieved only through thrift, industry and enterprise.

III THE NEED FOR RURAL REHABILITATION SERVICES: In virtually every rural community throughout the nation there are farm families who are failing year after year to produce enough crops or livestock to pay their normal farm-operating expenses, to provide enough food and clothing to meet their minimum needs, and to pay their debts. Many of these families are living in poverty. Some of them are a burden on their communities and are forced to raise their children under conditions that will lessen their opportunities for success when they grow up.

These families do not want to live in poverty. They want to enjoy a decent standard of living, to contribute their share in the growth and development of their communities, to train and educate their children to be good and useful citizens. They are not without ambition and hope. The very fact that they keep struggling year after year in spite of their repeated failures proves that they are not lacking in courage and character. Most of them are failing simply because they are faced with problems which they cannot overcome without assistance.

Many people are prone to forget the circumstances of thousands of our low-income farm families today because of the generally improved agricultural situation during the war period. One must not assume that all farmers have benefited alike, or in fair proportion to the size of their operations, as a result of the increased demand for farm products and the improved price situation during the last few years. Actually, those small farmers who do not have sufficient land and the capital to expand their operations or to increase production of needed crops or livestock have received a relatively small share of the benefits from these improved conditions in agriculture.

We cannot afford to lose sight of the problems and the needs of these low-income farmers as we view the total, over-all farm production and income figures for the nation, or for any state or county, during the war period.

It would be well to remember that it was only ten years ago that about two million farm families in this country were on relief. They had reached the point where they were unable to provide even their minimum needs of food, clothing, and medical care from their farming operations. The nation was duly alarmed then that approximately one-third of all of our farmers were existing on such a narrow margin of security that they could not even feed and clothe themselves adequately with incomes from their farms.

A study of the problem of these destitute farm families revealed that their situation resulted, not so much from the depression, which lasted for only a few years, as from other causes which were much more serious and more deep-rooted. The improved price situation today has not solved these problems, and they will not be solved completely for a long time to come. They were generations in the making, and they will not vanish in a few brief years.

Much of the land in this country is worn out from years of misuse and continuous row-crop farming. Many farms are too small adequately to support a farm family or to enable that family to make good use of its labor and other resources. But, in

III (cont.)

addition, to these two great handicaps of poor soil and farms too small to provide a satisfactory living, many farmers have the added problem of insecure tenure that makes it impossible for them to plan ahead for more than a few months at a time. They do not know from one year to the next whether they will remain on the same farm or will have to move to a new farm.

This continuous mobility of farm families increases the problem of erosion and causes further loss of soil fertility, the decay of farm buildings and the general deterioration of farm property values. This means less income for the landowners resulting in the loss of taxes for the support of schools, building and maintenance of roads, and other services. It also means less business for the local merchants and lower bank deposits in the communities where tenure is one of the big problems. Everybody loses, and nobody gains under these conditions.

Undoubtedly, the heaviest losers are the low-income farm families who are so unfortunate as to have to operate these small, worn-out farms. They are generally without funds to buy the equipment, the seed, and fertilizer needed to make the best use of the available land, and to properly employ their family labor and they have been unable to increase the size of their farms through better tenure arrangements. So they cannot and do not produce the crops and livestock necessary to meet their normal operating expenses. They do not accumulate cash reserves under these circumstances. In fact, a great many of them find themselves in debt at the end of the year. There is little hope that they can improve this situation unless they are given the help they need to overcome their problems.

For the reasons that have been stated, many low-income farmers have never learned the best methods of planting and cultivating their crops, of feeding livestock, or of doing the other jobs necessary to operate a farm successfully. They have never had any experience in planning and managing a sound farm program. A farmer who has never had the opportunity to learn cannot be criticized for not knowing how to farm in accordance with the most modern methods. The practices that many of these low-income farmers are using today were learned from their ancestors a generation ago, and they are usually inefficient -- quite often, they are primitive. Very few of them will be able to do much to improve their present situation unless they are given assistance in the form of sound credit and practical guidance in overcoming these problems.

The plight of these low-income farmers will become even more serious in the years to come than it is today unless their problems are recognized and their needs are met. They have not been able to keep apace with the scientific developments in agriculture in the past, so it is reasonable to expect that they will have even greater difficulties in the future in providing a satisfactory living from the land, unless they have the opportunity to learn about and to adopt improved methods and practices in carrying out their farm and home operations. They will also need credit to finance their operations.

During recent years, more progress has been made toward finding better ways of farming than in any comparable period in our history. We know more about the value and use of fertilizer on crops and pastures than we knew a few years ago. New seed varieties have been developed to increase the yields and to improve the quality of certain crops. We have learned how to protect, and even improve, our soil while we get greater returns from it through better crop rotations and by following sound conservation

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III (cont.)

practices. We have learned more about the proper care and feeding of livestock -- how to produce beef, mutton, pork, eggs, milk and butter more efficiently and with greater returns to the farmer.

Similar, and perhaps even more revolutionary, improvements are being made in farm machinery and in other types of equipment used on the farm. There will undoubtedly be a rapid trend toward mechanized farming in this country after the war. Farmers who are financially able to do so will avail themselves of many labor-saving devices in the years ahead to increase their production at lower costs, and thereby net greater returns from their farming operations.

Farm operators must depend either upon their savings or upon the availability of adequate credit to obtain the tools, equipment, livestock, and other essentials they need to farm on a sound and successful basis. But, as has been stated, many low-income farmers cannot accumulate savings when their farm production is so limited, and they cannot obtain from other sources the credit they need to make necessary adjustments in their present plans of operation. These adjustments usually must be planned and worked out over a period of several years. Short-term, seasonal credit, even if available, generally will not permit them to change their pattern of farming or to acquire the additional livestock or the equipment needed for balanced and profitable farm operations. The resources of these families are too inadequate to enable them to earn the income required for family-living expenses, farm-operating expenses, and for the repayment of debts. A large proportion of the rural families in the low-income group are not regarded as good credit risks by banks or other lending institutions.

It is, therefore, quite obvious that many low-income farmers will not be able to improve their methods of farming unless they are provided with sound credit and practical supervision and advice to aid them in making necessary changes in their present plans of operation, and in their present farm and home management practices. The need for rehabilitation assistance among low-income farmers is great today in practically every rural community, even though many farmers are enjoying a period of prosperity. These needs will increase, rather than diminish, in the post-war period.

The rural rehabilitation program was authorized and developed to assist worthy low-income farm families to overcome, through their own efforts, problems which are keeping them from attaining economic security. Since the beginning of this program in 1935, rehabilitation assistance, in the form of reasonable loans and practical guidance in farm and home planning and management, has been made available to more than 890,000 low-income farm families throughout the nation. These families were unable to secure from any other source the necessary financing to enable them to carry on adequate and self-supporting farm operations. As of June 30, 1945, over 361,000 of these borrowers had repaid their indebtedness to the Government in full. Very few of these farmers will require further loans from the Farm Security Administration. The progress of these families shows that the small, destitute farmers can and, generally, will succeed in improving their situation if they are given the opportunity. These families who have received rehabilitation assistance are enjoying a higher standard of living; they have better health; they are better citizens in their communities. They are contributing their part toward the winning of the war and will

III (cont.)

be better able to shoulder their responsibilities to keep us a strong and prosperous nation in the peace to follow.

County FSA Committees have rendered a real and valuable service through their work in connection with the rural rehabilitation program. Their Government, their communities and the thousands of low-income farmers who have been helped toward greater security -- they all are grateful for this service.

IV RURAL REHABILITATION PROGRAM ACTIVITIES: There is not and there cannot be a set pattern for the rehabilitation of all low-income farm families. No two families are faced with identical problems. Family circumstances and needs vary, and we have learned during the ten years the rural rehabilitation program has been in existence that the problems of low-income farmers are both numerous and complex. In order to rehabilitate individual farm families, it is necessary that the rehabilitation aids and methods be varied and broad enough to provide these families with the special type of assistance they need to overcome their own individual problems. For this reason it would be practically impossible to list all of the many ways in which low-income farm families are assisted toward a solution of their problems by FSA Supervisors in carrying out their responsibilities under the rural rehabilitation program. However, activities which are recognized as being most essential to the rehabilitation of needy farm families may be grouped under a few main headings, as follows:

A Supervision. Supervision or practical guidance, which means teaching the families better management practices in farming and homemaking, is the most important single phase of the rehabilitation program. It is the greatest single need of the majority of the low-income farmers who have applied for rehabilitation assistance throughout all the years of the existence of this program. It is the chief item of security which the Government has for its funds invested in rehabilitation of borrowers, for without supervision the Government could not afford to lend money to that large group of farmers who are worthy and in need but who have only limited resources to offer as security -- often nothing more than their willing and honest toil and a striving ambition to succeed. It is this supervision, accompanied by sound credit on reasonable terms, that distinguishes the rural rehabilitation program from the activities of all other Government agencies and private lending institutions. Under the rehabilitation program, an applicant's credit needs are considered only after a complete analysis is made with the family of its total plan of operations. The FSA Supervisors advise with the applicant family to help them determine the best use of their labor, their abilities, their land and all other resources, in order to make a success of their farming operations. From these discussions and this type of analysis, a Farm and Home Plan is developed by the family which shows clearly and completely the enterprises or jobs to be accomplished by the family, what the year's operations will cost, what the family can contribute toward these costs, what income is to be expected, the amount of credit needed, and the amount to be repaid at the end of the season.

An attempt is made to fit the plans to the specific needs of the individual family. Rehabilitation borrowers are encouraged to produce as much as possible of their food and other family-living needs and feed for the livestock, as a means of reducing cash expenditures and, at the same time, promoting a higher standard of living. The Farm and Home Plan also provides for the production of sufficient crops or livestock,

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IV A (cont.)

or a proper combination of the two, to meet the farm-operating and family-living expenses, and for the repayment of debts. Unless these things can be provided for in their plan, and unless there is reasonable probability that such a plan can and will be carried out by the family, there is no chance for rehabilitation. And there can be no assurance that the families accepted for rehabilitation will succeed in carrying out their Farm and Home Plans, unless they are shown and told how to do the things which are listed on their Plans. They cannot be expected to succeed by following the same practices they have always followed. They must learn new or improved methods; they must adopt new and different practices in their farm and home operations. FSA Supervisors, therefore, have only begun their work with rehabilitation borrowers at the time the Farm and Home Plans are made and the loans approved. They must visit the families on their farms and in their homes throughout the year, as the various jobs are being done by the families, in order to teach them new or improved methods and practices. Each rehabilitation borrower expects this type of assistance from the Supervisors and agrees at the time his loan is approved to cooperate to the best of his ability in carrying out his Farm and Home Plan and in following the wise counsel and advice of FSA's trained Supervisors. Without supervision, then, there could be little rehabilitation.

B Credit.

1 RURAL REHABILITATION LOANS. Each rehabilitation loan is based on a Farm and Home Plan worked out by the applicant family with the advice and assistance of the FSA Supervisors. No loan is made unless the plan shows that the money to be borrowed can be repaid. Rehabilitation is not a gift, as was stated previously, but is rather an opportunity for deserving and worthy low-income farmers to improve their circumstances. Rehabilitation loans, therefore, must be sound loans and within the ability of borrowers to repay them.

Rehabilitation loans are made for the purchase of livestock, equipment, seed, feed, fertilizer, family-living expenses, medical care, and for other necessary farm- and home-operating expenses. These loans bear five per cent interest and are to be repaid in from one to five years, depending on the purposes for which they are made and the ability of the borrowers to make repayments. Rural rehabilitation loans are secured by a mortgage on the crops to be grown and on the livestock, equipment and other chattels owned by the borrowers or purchased with the loan funds.

2 RURAL REHABILITATION LOANS FOR GROUP SERVICES. In order to make desirable or necessary improvements in their farming operations, many small farmers need certain types of services or facilities not available to them in their communities and which they cannot afford to own individually. For instance, if they are to improve the quality of their livestock, they need the services of pure-bred sires. Or they might need storage facilities, food preservation equipment, the use of a combine, a disc, or a mowing machine to farm more successfully.

As an aid to the rehabilitation of farm families, the Farm Security Administration makes loans to individual farmers, who are eligible for rehabilitation assistance, to enable them to acquire needed services, such as those listed above, when these services are to be used for the benefit of a small group of farmers. Group-service

IV B 2 (cont.)

loans are limited to the same purposes as those for which rehabilitation loans are authorized to be made, bear the same rate of interest, and the security offered must be reasonably adequate to protect the Government's interests.

3 LOANS FOR WATER FACILITIES. In the arid and semiarid sections of the seventeen Western states, where lack of water is often a greater handicap than lack of good soil, the FSA makes loans to individual farmers and ranchers, and to water-users' organizations, to enable them to install or repair such water facilities as ponds, wells, stock water tanks, diversion dams, conduits, windmills, spring developments, water spreaders, farm distribution systems, flood irrigation works, and small irrigation facilities for supplying farmstead water. The terms of the loan will not exceed the life of the facility, or twenty years, whichever is the lesser, though repayments are to be made as rapidly as possible, consistent with the debt-paying ability of the borrower. All water facilities loans bear an annual interest rate of three per cent.

C Health. Farming is hard work. It is therefore extremely important that attention and consideration be given to the health of farm families accepted for rehabilitation. Poor health will keep a farmer from succeeding just as surely as poor soil or poor management will retard his progress. Only through the maintenance and the improvement of health will the individual members of the family be able to contribute their full share to the total family manpower and productive efforts. Much of the supervision given to borrower families relates directly to the improvement of their health. Borrowers are taught simple but fundamental practices to keep them in good health. They are encouraged to produce and to conserve as much of the right types of food as possible for their own needs. They are taught the use of these foods in family meals, since eating the right kind and amount of food promotes and maintains health. Sufficient clothing for the family and essential equipment to operate the home, as well as satisfactory housing and sanitation, contribute to the physical well-being of the family.

In addition, the Farm Security Administration assists its borrowers in obtaining medical and dental care at a cost they can afford. In cooperation with state and local medical and dental societies, as well as hospitals, the FSA has worked out arrangements that enable families in a county or in a district to form a group health plan and prepay their annual fees into a pooled fund to cover their medical and dental bills. If necessary, funds may be included in rural rehabilitation loans to individual families to provide for these services. FSA borrowers are also encouraged to take advantage of whatever facilities for preventive health services and medical care as are made available by local public health agencies, including the services of state vocational rehabilitation agencies.

D Tenure Improvement. It is, of course, fundamental that in order to succeed at farming, a farmer must have enough land of good quality available, and under such terms and conditions, as will enable him to plan and carry out an adequate program for the type of farming he intends to do. Many farmers have failed because their farms were too small or because the land was too poor, but just as many have failed because they have never really had any security on the land they were operating. A farmer cannot make full use of his land nor of his labor unless he knows he is settled for more than a few months out of each year. Before a rehabilitation loan is approved,

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IV D (cont.)

the borrower must have made satisfactory tenure arrangements for an adequate farm unit. If he is not an owner, then he must have a satisfactory lease on the unit he intends to operate. The lease arrangements should be fair and equitable for both the landowner and the tenant. The Farm Security Administration has encouraged written leases as a protection to, and as the means of promoting better understanding between, the landlord and the tenant. We have also encouraged long-term leases wherever this arrangement appeared desirable and advantageous to both the owner and the operator. Committees have done much in some counties to improve tenure practices.

E Debt-Adjustment. Another factor that has kept many farmers from getting ahead is the accumulation of debts beyond their ability to pay. As an aid to their rehabilitation, the FSA offers assistance to needy debt-ridden farmers by arranging for them to meet with their creditors for a discussion and better understanding of their circumstances, and for working out voluntary agreements for the adjustment of their debts. Both the creditors and the debtors benefit through this assistance. As a result of the adjustments which creditors have made voluntarily, many farmers have been able to continue their farming operations and to repay debts which otherwise might not have been paid. This service has enabled many farmers to avoid bankruptcy and forced sale of their possessions. Since the inception of the rural rehabilitation program, Committees have assumed and discharged a major responsibility in providing this service to the debt-burdened farmers of their communities.

Under legislation recently enacted, the Secretary of Agriculture is authorized to make settlement, under certain conditions, of indebtedness owing to the Government as a result of loans made to farmers under various Government programs. Regional Directors have been delegated the authority to accept offers of settlement from FSA borrowers on debts resulting from FSA loans, provided the conditions outlined in the law, in the Secretary's Regulations and in FSA Instructions are met and are fully complied with. However, these authorities will have very limited application in connection with the FSA program. County FSA Committees will be called on to review applications from FSA borrowers for settlement of indebtedness before they are submitted to the Regional Director. Policies concerning this activity have been summarized for the information of Committeemen and are included under paragraph V of this Section of this Handbook.

V SOME BASIC POLICIES WHICH GOVERN RURAL REHABILITATION ACTIVITIES: The Farm Security Administration issues full and complete instructions to guide its employees in carrying out all phases of the rural rehabilitation program. These FSA Instructions contain detailed statements of policy and procedure. While some of the most significant policies for the operation of the rural rehabilitation program are summarized below, Committeemen should understand that many of these are necessarily brief, and statements might need further interpretation and explanation by the FSA Supervisors. Committeemen should feel at liberty to discuss any phase of the FSA program with our Supervisors.

A Families Eligible for Rural Rehabilitation Assistance. Low-income farm families (including owner-operators, tenants, sharecroppers, and farm laborers), veterans, and returning war workers are eligible for standard RR loans, provided:

- 1 They have had enough experience in the type of farming which they intend to do to provide reasonable assurance that they can succeed in the operation of a

V A 1 (cont.)

family-type farm.

2 They are unable to obtain adequate financing for successful farm and home operations on reasonable terms from any other source.

3 They own or can make satisfactory arrangements for the use of enough land of such quality or condition as is necessary to carry on the type of farming intended on a sound and profitable basis. The family income should be sufficient to provide for the normal farm-operating expenses, family-living costs and debt repayment.

4 They need and are willing to accept practical supervision and guidance in planning and managing their farm and home enterprises to assure successful rehabilitation.

5 They show evidence of having, or of being able to develop, the skills and ability to achieve rehabilitation on the land.

B Purposes for Which RR Loans May be Made.

1 Loans may be made to heads of families eligible as standard borrowers to provide for family and farm expenditures (except for the purchase of land), when the approved Farm and Home Plan indicates that such expenditures are necessary for the successful rehabilitation of the farm family. The family and farm expenditures for which RR loans may be made, may include, but are not limited to, the following items: Livestock, feed, seed, fertilizer, farm equipment, family subsistence, home furnishings and equipment, minor repairs and improvements for the farm and home, emergency health services, and participation in group health, hospital and dental services.

2 As a general policy, RR loans will not be made for refinancing debts, either secured or unsecured, except in unusual circumstances.

C Terms of RR Loans.

1 Interest will be charged at the rate of five per cent per annum on RR loans and renewals thereof. Interest will accrue on principal only and will not be compounded.

2 Repayments of principal on RR loans will be arranged in one or more annual installments, coinciding with season receipts of income from farm operations for periods not to exceed five years. The terms of loans will be established in accordance with the following:

a The portion of loans used for annual operating expenses must be scheduled for repayment from income derived during the crop year for which such advances were made.

b Loans for purposes other than annual operating expenses will be scheduled for the minimum repayment period consistent with the borrower's

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V C 2 b (cont.)

ability to repay as shown by the Farm and Home Plan, but in no instance may the term of the loan exceed five years or the useful life of the security given for the loan, whichever is shorter.

3 No loans will be made in excess of \$1500, unless the Committee for the County in which the applicant will operate will certify that a larger loan is necessary to enable a family to establish or maintain adequate family-type farm operations in that County and, in addition, that such loan will directly result in the production of vital war crops of a substantial amount as compared to the amount of the loan.

4 No loan will be approved in any case in excess of the \$2500 limitation specified in the Department of Agriculture Appropriation Act of 1946.

D Security. The approval of a standard RR loan in the first instance, or a renewal thereof, ordinarily will be predicated on the probabilities of orderly repayment of the loan on the basis of farm income in accordance with the original Farm and Home Plan, or a revision thereof, rather than the security available, either chattel or real. However, it is the policy of the FSA to take a first lien on sufficient available property to secure standard RR loans, or renewals thereof, and to safeguard the financial status of the borrower during the process of rehabilitation.

1 Standard RR loans will be secured in the full amount of the loan by a first lien on the crops growing, or to be grown by the borrower, and a first lien on any livestock or equipment purchased with the proceeds of a loan; except that in areas where local law gives the landlord a prior lien on crops and it is impossible to obtain a subordination from him, the best crop lien obtainable will be taken.

2 When additional security is required or desirable because of the nature of the loan, there may also be taken (a) an assignment of the proceeds from the sale of the farm, dairy or other agricultural products; (b) an assignment of ACP benefits; (c) a lien on other personal property; (d) a real estate mortgage or deed of trust on property owned by the borrower; or (e) an assignment of a leasehold in states where the Regional Office advises that such security, under the state law, will give the Government substantial security without danger of liability under the lease, together with a lien on the improvements erected in conformance with the leasehold contract, particularly when such improvements are financed by the FSA.

3 BORROWERS' RESPONSIBILITIES. Borrowers must account to the Government for all property that is mortgaged to secure RR loans. In addition, borrowers are responsible for the protection and preservation of security property and for seeing that such property is not subjected to conditions which will result in its undue depreciation. This will include, among other things, the proper care and maintenance of machinery and equipment, the proper feeding, housing and care of livestock, and the exercise of diligence and good practices in cultivation, harvesting, marketing and storage of crops.

E Supplemental Loans. Should it become evident that the borrowers's financial needs will become greater than the initial loan provided for, one or more supplemental

V E (cont.)

loans may be made for such additional needs, provided the limitation in the amount which may be advanced to an individual borrower in a given fiscal year is not exceeded, and provided further that the loans can be made on a sound basis and in compliance with the above-stated policies, except that:

1 No supplemental loan will be approved for any borrower whose debt to the Farm Security Administration for rural rehabilitation operating loan(s) was contracted five years or more prior to the date of applying for such additional assistance, unless the borrower has repaid at least 50 per cent of his total RR indebtedness prior to applying for additional financial assistance, or unless he comes within one of the following groups, and (a) there has been developed a Farm and Home Plan, and there appears to be a reasonable probability that he will follow it, and (b) the Committee has certified that additional financial assistance is needed and there is reasonable probability of success:

a Borrowers whose failure to repay 50 per cent of their total RR indebtedness is due to deficiencies in resources or inadequate planning, provided (1) some progress has already been made, and (2) a current Farm and Home Plan, showing the addition of needed resources or such major improvements or adjustments in the farm and home business as are necessary to provide sufficient increase in income to meet a proper repayment schedule, has been developed and there appears to be a reasonable probability that the borrower will follow it.

b Borrowers whose failure to repay 50 per cent of their total RR indebtedness is due to circumstances over which the borrower had no control, which occurred within the past three crop years, and which materially reduced the income, such as, unusually adverse weather conditions, accidents or serious illnesses, or substantial loss of livestock or crops due to uncontrollable disease, uncontrollable pestilence or catastrophe.

c Borrowers whose failure to repay 50 per cent of their total RR indebtedness is due solely to the fact that a relatively large loan to expand or reorganize the farming operations was made within the past two years and satisfactory repayments have been made during the life of such loan.

d Borrowers who are project occupants, or present active standard RR borrowers who were accepted as nonstandard borrowers or who formerly operated project units, whose situation does not fall completely within the foregoing classes, provided they have begun to make annual payments in amounts substantially greater than annual advances for recurring expenses plus an amount equal to the annual depreciation on chattel security.

e Borrowers who have been discharged from the armed forces of World War II and whose failure to repay 50 per cent of their total RR indebtedness is directly related to their military service.

F Renewal of Loans. It is the policy of FSA, in making RR loans, to develop repayment schedules within the borrower's anticipated ability to repay. Rehabilitation

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V F (cont.)

borrowers are expected to comply promptly and fully with the established repayment terms. It is recognized, however, that circumstances may occur which will not permit a borrower to meet his repayment schedule. RR loans to active standard borrowers and FO borrowers (including project occupants), therefore, may be renewed, but only if such renewal will aid in the rehabilitation of the borrower and the Government's security interests will not be adversely affected and other stated conditions are met. The RR loans outstanding to collection-only standard borrowers and active nonstandard borrowers will be renewed only if the renewal will materially aid in the collection of the account.

G Group Services.

1 PURPOSE. Group services are a means by which two or more low-income farmers may provide themselves with such services, equipment and facilities, as sires, machinery, storage facilities, food preservation equipment, and other needed farm and home services, facilities and equipment which they could not otherwise obtain individually on an economically sound basis. Through the use of group services, low-income farmers on family-type farms may keep capital investment in balance with their other resources and size of operations and provide themselves with modern production equipment, facilities and services not otherwise available to them as individuals. Group services also provide a means by which low-income farmers can learn to work together to solve other mutual problems of rehabilitation. They are an integral part of a well-balanced rehabilitation program.

2 TYPES. Group services established, financed and supervised under the rehabilitation program are of the following two types:

a Joint-owner. When two or more individuals combine resources to acquire and own a facility jointly and a loan is made by FSA to one or more of the joint-owners, the facility will be designated as a joint-owner group service. The operation of such services will be primarily for the members of the group, but they may also be made available to users other than the owners.

b Master-owner. A master-owner group service is one in which (1) an individual owns and operates one or more pieces of equipment, sires or similar facility which serves the needs of two or more individuals; or (2) two or more farmers individually own separate items of equipment, sires or facilities and exchange their use on the basis of a written agreement. An example of (2) above is the situation in which one farmer owns a mower and rake, another owns a grain drill and a third owns a binder, and the three mutually agree to exchange the use of these implements, decide upon the equitable exchange rate and make a settlement at the end of the operating year.

3 DEVELOPMENT OF GROUP SERVICES. Committee members can be of real assistance to FSA borrowers and Supervisors in pointing out the need for or the availability of various types of services or facilities in the different communities. However, the families themselves must participate in the consideration

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of the need for the service, and they must make the decision whether to participate in a group service--subject, of course, to the approval of their applications for individual loans. Planning with families individually and in group meetings is an effective means by which they can be aided to recognize needs and to determine the possibilities of meeting these needs through group services.

4 RR LOANS FOR GROUP SERVICES. RR loans to individuals to acquire property for use in a group service may be made to those found by the Committee to be eligible for rehabilitation assistance in accordance with the policies stated for rural rehabilitation loans. Loans for group services bear five per cent interest, may be made for any of the purposes for which RR loan funds may be used, and the security offered must be reasonably adequate to protect the Government's financial interest. They must be repaid as rapidly as possible, but in no instance will the repayment period exceed five years.

H Health Services. All FSA borrower families are encouraged to take advantage of the preventive services offered through local health departments, including maternal and well-baby clinics, immunizations, testing of water supplies, and advice on other sanitation problems such as the sanitary handling of milk. They are urged to participate in school health activities, such as school lunch programs, to secure corrections recommended in connection with school physical examinations, and also to participate in community organizations working for the improvement of individual and community health, such as Parent-Teacher Associations, home demonstration clubs, and county health committees. They are also expected to avail themselves of services available through agencies concerned with the correction of handicapping defects and the control of tuberculosis, cancer, and infantile paralysis. To enjoy the advantages of group action, FSA borrower families are also encouraged to participate in group prepayment plans for medical, dental, and hospital care, including FSA group health plans. As a rule, provision is made in farm and home planning to meet the need for a sanitary water supply, waste disposal, and protection from insects and rodents, either through arrangements with landlords or through loans, if necessary, in the case of farm owners.

I Tenure Improvement. Insecure or unsatisfactory tenure arrangements will retard or prevent the successful rehabilitation of a farm family. It is, therefore, necessary that each rehabilitation borrower have available a farm unit of such acreage, soil resources and improvements as will permit the family to carry out an adequate and sound farm program and which will, under proper use and wise and efficient management, reasonably assure the family's rehabilitation. It must be a unit which will permit the effective use of the principal portion of the family's labor. Satisfactory tenure on the unit should be obtained through ownership, lease, or a combination of these methods and should provide for the continuous use of the land on equitable terms over a period long enough to permit the completion of all phases of the planned farming operations. FSA employees, including members of Committees, will use every reasonable and practicable means to promote improved tenure and leasing arrangements for the mutual benefit of both tenants and landlords.

1 Lease arrangements should include provisions for compensation for tenants' improvements, including sanitation and housing repairs which will protect the health of the family, in cases where leases are terminated before the full benefits of such improvements can be realized; stipulation that the tenant will have the use of

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sufficient farm resources to supply family needs for food and fuel and feed for subsistence livestock; arbitration of disputes; and no prohibitions against obtaining adequate financing.

2 Mortgage or purchase contracts should be adjusted, where necessary, so as to provide for a reasonable annual cost for the use of the land and adequate protection of owner equities. For applicants, the tenure arrangements generally should be in accord with FSA policies before acceptance, while for present borrowers, objectionable tenure arrangements will be corrected as rapidly as possible.

J Debt Adjustment.

1 GENERAL DEBT ADJUSTMENT POLICIES. It is the policy of the FSA to aid and assist in the adjustment of excessive debts of needy farmers through impartial mediation with their creditors. It is not the policy of FSA to encourage or assist any person to avoid payment of bona fide debts within his ability to pay. It is expected that each debtor will meet his obligations to the limit of his ability. Where FSA borrowers or applicants have excessive outstanding debts and obligations, every effort should be made to have these debts adjusted, within the family's ability to pay, on the basis of normal income-producing probabilities of the family through (a) cancelation, (b) reduction of principal or interest, (c) extension of time for repayment, (d) renewal, (e) reamortization, or (f) any combination of these methods. Payment of debts on the adjusted basis should be provided for in the Farm and Home Plan; however, RR loans may not be made to refinance outstanding debts except in unusual cases and as specifically authorized in FSA Instructions. Committees have a primary responsibility in providing debt-adjustment services to needy farm families and their creditors in their respective communities.

2 POLICIES FOR THE SETTLEMENT OF FSA ACCOUNTS THROUGH COMPROMISE, ADJUSTMENT OR CANCELATION. Under the provisions of an Act of Congress approved December 20, 1944, known as Public Law 518, and the Regulations of the Department of Agriculture dated January 20, 1945, authority is granted for the compromise, adjustment and cancelation of FSA accounts owed by individuals under the conditions outlined below. The authorities contained in FSA Instructions for the settlement of accounts and summarized here for the information of Committeemen, will neither serve as justification for nor permit any relaxation of the efforts of FSA officials to collect indebtedness as owed the Government. Borrowers are expected to repay their indebtedness in full, and FSA accounts and security will continue to be serviced in accordance with applicable policies and procedures. Admittedly, there are some cases where payment in full will not be possible. But before any settlement actions are approved, it must be clearly established in each case that the requirements contained in FSA Instructions are fully satisfied.

a Definitions.

(1) "Compromise" means complete satisfaction of the indebtedness through immediate payment of an amount less than the total thereof and acceptance by the Government of such amount in full payment of the indebtedness.

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(2) "Adjustment" means the scaling down of the amount of the indebtedness, including interest, conditioned upon the payment of the adjusted amount at some specified future time or times. An adjustment is not a settlement of the indebtedness until the provisions of the adjustment arrangement have been carried out.

(3) "Cancelation" means the complete discharge of the present indebtedness without any payment thereon.

(4) "Settlement(s)" means either compromise, adjustment or cancelation of the indebtedness. It is used for convenience in referring to compromise, adjustment or cancelation actions, individually or collectively.

b Conditions for Settlement of FSA Accounts Upon Application by Borrower. Indebtedness may be compromised, adjusted or canceled, upon application by the borrower, provided all of the following conditions exist:

(1) The Principal Amount of the Indebtedness is Not in Excess of \$1,000. This limitation of \$1,000 will apply to the principal amounts owed by borrowers under each of the several Acts of Congress specified in Public Law 518 which authorized programs administered by the FSA. A borrower's total indebtedness to the FSA, therefore, may exceed \$1,000, and all or a part of his indebtedness may be considered for settlement under this provision. FSA Instruction 463.1 carries a full complete explanation of this requirement.

(2) The Indebtedness of the Borrower Has Been Due and Payable for Five Years or More. Indebtedness may not be compromised, adjusted or canceled unless the final installment on the note or contract presently held by the Government as evidence of the indebtedness has been due and payable five years or more.

(3) The Borrower is Unable to Pay the Indebtedness in Full and Has No Reasonable Prospects of Being Able to Do So. Unwillingness on the part of the borrower to pay his indebtedness, or a mere financial disadvantage to him, is not sufficient to satisfy this requirement. In order to determine whether or not a borrower is able to pay his indebtedness in full or has reasonable prospects of being able to do so, a complete analysis must be made of his debt-paying ability to arrive at the maximum amount he is capable of paying.

(4) The Borrower Has Acted in Good Faith in An Effort to Pay His Indebtedness. Some of the factors to consider in determining that a borrower has acted in good faith in an effort to pay his indebtedness are: (a) Properly caring for and accounting for all security property; (b) propriety of uses of income, and whether or not payments have been made on the indebtedness to the extent possible; (c) whether the borrower has attempted, through the transfer or sale of assets or by other means, to defeat the efforts of the FSA to collect the indebtedness; and

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J 2 b (4) (cont.)

(d) whether the borrower made any material misrepresentations or concealed any pertinent facts in obtaining the loan.

(5) Additional Requirement For Cancellation. Applications for the cancellation of indebtedness may not be approved unless, in addition to the requirements enumerated in paragraphs (1), (2), (3) and (4) above, it is found that the borrower is unable to pay any of the indebtedness, has no reasonable prospects of being able to do so, and a definite advantage will accrue to the FSA by discontinuing further servicing and maintenance of the record of the account by the cancellation of the indebtedness. Examples of cases of this nature are: Borrowers who are permanently disabled, mentally or physically, or borrowers who are presently confined in correctional institutions and it appears reasonably certain they will be so confined for long periods of time.

c Cancellation of FSA Accounts without Application by Borrower. Where it is determined that an advantage will accrue to the Government by discontinuing further servicing and maintenance of the account, and when other conditions exist, as fully outlined in FSA Instructions, FSA accounts and be canceled without the application of the borrower.

d Delegation of Authority. Regional Directors are authorized to approve the compromise, adjustment or cancellation of FSA Accounts in accordance with the provisions of law, Regulations of the Department of Agriculture and applicable FSA Instructions. This authority may not be redelegated by the Regional Directors.

e Committee Responsibilities.

(1) The Committee will review each application submitted by an FSA borrower for settlement of his indebtedness before it is forwarded to the Regional Director and will certify as to their knowledge and belief concerning the completeness and the truthfulness of the information contained in the application.

(2) In the case of accounts of borrowers whose whereabouts are unknown, which are being considered for cancellation without application from the borrowers, Committees must certify in each case that to the best of their knowledge the borrower's whereabouts has been unknown for a period of two years, or more, as the case may be, and that in their opinion a diligent effort has been made by FSA officials to locate the borrower.

(3) A settlement effected under these authorities will not, of itself, prevent the borrower from receiving subsequent FSA assistance. However, an application for subsequent assistance in such a case will be reviewed carefully in the light of the circumstances surrounding the settlement, as well as other applicable factors, for the purpose of determining whether the applicant has a reasonable prospect of repaying the loan requested and any other indebtedness owed the FSA, and whether he is otherwise eligible.

SECTION IV - COMMITTEE RESPONSIBILITIES FOR CERTIFYING LOANS GUARANTEED
BY THE ADMINISTRATOR OF VETERANS' AFFAIRS

I GENERAL:

A The Servicemen's Readjustment Act of 1944, popularly known as the "G.I. Bill of Rights," provides, among other things, for assistance to veterans of World War II who wish to establish farm homes and pursue farming as a means of earning a livelihood. The assistance is in the form of a guaranty by the Administrator of Veterans' Affairs (hereinafter called the Administrator) of a portion of a loan or loans which the veteran may obtain for the purchase of a farm, farming equipment, or livestock or for repairing, altering, or improving farm buildings or equipment.

B The Administrator has designated the Department of Agriculture as an agency to ascertain whether applications for guaranty of loans for agricultural purposes meet the provisions of the Act and of the regulations issued by the Administrator pursuant thereto and to make recommendations accordingly as to whether guaranty should be made.

II VETERANS' AGRICULTURAL LOAN COMMITTEES: The Secretary of Agriculture has appointed four persons in each county to serve as a Veterans' Agricultural Loan Committee, hereinafter referred to as the Certifying Committee. Three members of the Committee will be the same persons who, on any date, serve as members of the County FSA Committee for the county appointed pursuant to Section 42 of the Bankhead-Jones Farm Tenant Act, and a fourth member will be a businessman, if available, who is a veteran.

A Duties of a Certifying Committee. It will be the duty of the Certifying Committee to determine and certify to the Veterans' Administration the following facts with respect to each loan for agricultural purposes for which an application is made for guaranty under Title III of the Act:

1 That the proceeds of such loan will be used in payment for real or personal property purchased or to be purchased by the veteran, or for repairing, altering or improving any buildings or equipment to be used in bona fide farming operations conducted by him.

(To qualify for the guaranty of a loan under the Farm Loan Section of the Servicemen's Readjustment Act of 1944, the veteran must engage in farming operations and devote the major portion of his time to such operations. If the veteran is purchasing a part-time farm, a subsistence farm, or a farm he does not intend to operate as a farm and, in any of these instances, intends to use it as a home, applications should be made for Home Loan Guaranty. Application for the guaranty of loans for new construction, alterations, repairs and improvements, taxes, special assessments or delinquent installments on existing loans, in the instances mentioned above also should be applied for on Home Loan Applications. If the veteran qualifies as a farmer and the loan pertains to the home on his farm, Farm Loan Application forms should be used for these purposes.)

2 That such property will be useful in and reasonably necessary for efficiently conducting such operations.

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II A (cont.)

3 That the ability and experience of the veteran and the nature of the proposed farming operations to be conducted by him are such that there is a reasonable likelihood that such operations will be successful.

4 That the purchase price paid or to be paid by the veteran for such property does not exceed the reasonable normal value thereof as determined by proper appraisal.

5 That, if the loan is to pay delinquent indebtedness, taxes, or special assessments on a farm (available only when and if it is used as the veteran's home), the proceeds of the loan will be so used.

6 That, if the loan is to pay for alterations, improvements, or repairs of buildings or of equipment for the farm, the proceeds will be used for such purpose; that it bears a proper relation to the value of the property as a whole, and the alterations, improvements or repairs of the real or personal property will enhance its value to a reasonable degree.

B In considering applications for guaranty of loans on realty, the Committee will consider appraisal reports submitted to them and, as to values stated therein, will be largely governed thereby. The Committee will also consider all other pertinent facts concerning any applicant or any loan, but the recommendation to be certified in each case will be the sole and independent action of the Committee. Final action on the application will be taken by the Administrator.

III CONDITIONS UNDER WHICH GUARANTY IS RECOMMENDED: In making the determinations outlined in II A above, the Certifying Committee will be guided by the following:

A The minimum prerequisite, in determining that the ability and experience of a veteran is such that there is reasonable likelihood that the farming operations to be conducted by him will be successful, is that he be able to perform the work which will be required of him in the kind of farming operations in which he expects to engage. His character, industry, training and experience should be such that he will be likely to perform successfully the various operations and to discharge the managerial responsibilities which will be required of him.

B In addition to any instruction he may have received in training centers, schools, colleges, short courses, correspondence or self-study courses, a veteran, who expects to make his living wholly or primarily from farming and who has had little or no actual farming experience, should (except in very special or unusual cases) acquire actual experience on a farm in the various seasonal operations related to the kind of farming in which he expects to engage, before a Certifying Committee may certify that there is reasonable likelihood that his farming operations will be successful. The amount of actual experience required should bear an appropriate relationship to the magnitude of the investment, the character of the operation, the ability of the applicant, and the amount of practical guidance which may be available to him after he starts farming. Placement training on a farm carried on under the auspices of an educational institution approved by the Veterans' Administration will be accepted as actual experience on a farm.

III (cont.)

C It must appear that the veteran's financial situation will be such that he will be able to carry on the farming enterprise successfully. The total income which it can be reasonably anticipated will be available to the veteran, whether from farming or other sources, must be sufficient to cover family-living expenses, operating expenses, and debt obligations, and must be of a degree of dependability that will assure continued operation over the period of the loan. Consideration will be given to the amount, if any, of the "readjustment allowance" available to the veteran under Title V of the Act and to any pension or other benefit to which the veteran is entitled.

D The purchase price must be within the veteran's ability to pay and succeed in his farming operations. In no event may the purchase price exceed the reasonable normal value of the property. "Reasonable normal value" for the purposes of the Act is that which can be justified as a fair and reasonable price to be paid for the real or personal property for the purposes for which it is being acquired, assuming a reasonable business risk, but without undue speculation or other hazard as to the future of such value. There must be taken into consideration also the normal earning-capacity value of the farm or other property, assuming average managerial ability, and yields and prices for farm products that reasonably may be anticipated during the period of the loan. There will not be unreasonably rigid adherence to long-time average prices or reliance upon a continuation of abnormal prices.

E Upon consideration of all the facts available, including the appraisal report, the Committee will certify to the Veterans' Administration the Committee's recommendation that the guaranty applied for should be granted, or denied, as the case may be.

F The certification by the Committee will be upon a form entitled, "Loan Guaranty Certificate." Thereupon, the FSA Supervisor will forward all the papers to the appropriate office of the Administrator with the recommendation of the Certifying Committee that the Administrator approve or disapprove the application. If disapproval is recommended, the reasons therefor will be stated in writing at the time the papers are forwarded. A recommendation that the application be approved, will be endorsed appropriately on the original of the application.

IV STEPS IN OBTAINING A LOAN GUARANTY:

A While not absolutely required, the veteran generally will profit greatly by going first to the local County Agricultural Advisory Committee for consultation regarding local agriculture and sources of credit before entering into any definite commitments to borrow money for agricultural purposes.

B The veteran will locate the property on which he wants a guaranteed loan and will make tentative financial arrangements with a prospective lender.

C The lender and veteran will request a certification of eligibility from the Veterans' Administration. The Veterans' Administration will certify as to the eligibility of the veteran and the amount of guaranty available to him. If an appraisal is required, the name of the appraiser and the fee for such service will be stated. Also, if a credit report is required, the type of report and the agency will be specified.

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IV (cont.)

D The lender will send the amount of the appraisal fee to the designated appraiser and request that the appraisal be made. The lender will include the veteran's application filled out as far as possible on Finance Form 1822a, "Application for Farm Loan Guaranty." The appraisal will be made, and the report will be returned to the lender.

E Further arrangements and conditions for the making of a loan will be made by the veteran and the lender, and the following documents will be assembled and sent to the Certifying Committee:

- 1 "Certification of Eligibility" - Finance Form 1800.
- 2 The original application for guaranty signed by the prospective lender and borrower.
- 3 The appraisal report, if the security includes real estate and appraisal is required.
- 4 The credit report, if any.
- 5 Copy of purchase option, if any, and copy of conditional sales agreement if the loan is to be predicated on such an agreement.
- 6 Proposed loan closing statement showing the estimated amount to be disbursed by the lender for the account of the borrower.
- 7 Unless stated elsewhere in the papers submitted, a statement of the kind and amount of insurance which will be required and the estimated premium cost for such insurance.
- 8 Copy of the lease, if any, or letter from the landlord stating the substance of the rental agreement, if any.

F The Certifying Committee will review the application to the extent necessary to make the determinations for which they are responsible and will forward the loan docket to the Veterans' Administration with its recommendation as to whether or not the proposed guaranty should be approved.

G The Administrator will determine whether to approve the application. If the loan guaranty is approved, the Veterans' Administration will notify the lender of conditions for closing. If disapproved, he will return to the proposed lender all papers received except the original application for guaranty and the original appraisal report and will state the reasons for denial. He will send a copy of the letter to the veteran and to the Certifying Committee.

H The lender will close the loan in accordance with the instructions from the Veterans' Administration (including such steps as obtaining the certificate, filing necessary mortgages, and so forth) and, within two months from that date, will forward to the Veterans' Administration a report on the closing of the loan.

SECTION V - COMMITTEE RESPONSIBILITIES IN CONNECTION WITH COOPERATIVE
ASSOCIATIONS

I OBJECTIVES AND GENERAL POLICIES:

A The purpose of the Farm Security Administration is to assist in the rehabilitation of individual low-income farmers and veterans. Farmer cooperatives engaged in furnishing agricultural services related to producing, processing, and marketing of agricultural products, and the cooperative purchasing of goods and services, are a basic and integral part of the American rural economy. Recognizing that individual effort is not sufficient to accomplish all phases of rehabilitation and that, through combining resources and efforts, individuals are benefited materially, Farm Security Administration personnel should at all times maintain a friendly and constructive attitude toward cooperatives as an important and effective aid in rehabilitating low-income farmers.

B The Farm Security Administration has financed and is continuing to assist in the supervision of certain cooperative associations designed to further the rehabilitation of low-income farmers. FSA borrowers should be encouraged to avail themselves of the services of FSA financed and other cooperative associations whenever the services of such associations will contribute to the rehabilitation of the borrower families concerned. Under existing legislation, FSA is prohibited from making loans to any cooperative association or making loans for the payment of dues to, or the purchase of any share or stock interest in, any cooperative association (except for medical, dental, or hospital services).

C Cooperative associations which, after careful analysis and study, appear to have reasonable chances of future successful operations should be assisted and encouraged to get all phases of their operations on a sound basis so that they can operate with an ever decreasing amount of FSA supervision and guidance, and, as soon as practicable, obtain their financing from sources other than FSA. This assistance and encouragement will be directed toward helping the individual members assume the responsibility of ownership and management which are characteristic of all true cooperatives and toward the adoption of sound business practices which are essential to the successful operation of any business enterprise.

D The County FSA Committee has a responsibility to advise the FSA Supervisors and borrowers in their management of these associations and use of the services they provide.

1 The adoption of sound business practices and the development of sound membership relations are essential to the successful operation of cooperative associations. The boards of directors, managers, employees and members of FSA financed associations should be encouraged to get all phases of operations on a sound basis so that they can operate their associations with an ever decreasing amount of FSA supervision and, as soon as practicable, obtain their financing from sources other than FSA.

2 It is characteristic of successfully operated cooperative associations that the membership assume the responsibility of ownership and management.

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Supervision of borrower associations which owe outstanding loan balances, in addition to protecting the Government's interest, will be directed toward assisting the members assume these responsibilities.

3 FSA financed associations will be encouraged and directed to utilize technical services which are available through other organizations with which they may affiliate or through independent sources or other Government agencies which are equipped and authorized to render such services, when required services can be obtained at a cost and under conditions which will not jeopardize the operating soundness or the financial stability of the association.

4 The following further considerations make it imperative that presently organized cooperative associations develop a broad educational program in order to:

- a Increase the volume of business of present members and participants.
- b Increase the size of the present membership.
- c Stimulate membership participation in the operation of the association.
- d Further the understanding of members of basic cooperative principles, thereby protecting them and their associations.
- e Encourage members to participate in recreational and related community activities.

5 In addition to conforming to cooperative principles and practices, cooperative associations currently indebted to FSA on direct loans will be expected to carry out the following four operating practices:

- a Prepare, submit, and follow an annual operating plan and budget.
- b Prepare and submit an annual financial report.
- c Conduct an annual membership meeting.
- d Hold additional membership meetings as necessary to sound operations.

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